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1939

(In Five Volumes)

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RELATIONS OF JAPAN WITH THE AXIS POWERS AND WITH THE SOVIET UNION

894.00/844

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

No. 3600

Tokyo, January 13, 1939.

[Received February 6.]

SIR: [Here follows report of changes in Cabinet at Tokyo.]

IV

Baron Hiranuma's¹ coming to the premiership requires discussion in relation to the question of the probabilities of hostilities between Japan and the Soviet Union.

In the above biographical sketch of Baron Hiranuma it is easy to find warrant for the assertion, repeatedly heard, that he has in the past been associated (and probably continues to maintain such association) with persons and organizations which are reactionary in the extreme. Among those persons and organizations there are many who have long preached the necessity of a war against the Soviet Union. Baron Hiranuma himself seems to have personally avoided commitment on the question; but there can be little doubt that he has been close to many who are passionately devoted to a Russian war policy and, in event of crisis, might well feel have a claim to the Premier's ear.

It can be pointed out that the reactionaries who have been supporters of Baron Hiranuma are primarily devotees of an expanding greatness of Japan rather than specifically of a war against the Russians. Their war advocacy has been secondary to a nationalistic crusade. In present Japanese policy in China there is ample outlet for all the energies of Japanese nationalistic enthusiasts, and the majority of observers are of opinion that the reactionaries' cry against the Soviets is not, under existing contingencies, a cry looking to actual war. At the same time, ideas persistently advocated acquire an inertia of their own; and long years of open talk of a Russian war have served to give body to the thought and to transform it into a definite expectation. Practically every Japanese is of opinion that, in the course of time, a war against the Soviet Union is inevitable. For too

¹ President of the Japanese Privy Council until January 5.

many years the War Office pamphlets and other writings in the press have said so.

There are additional reasons for appraising the year 1939 as being charged with danger of use of force by Japan against Soviet Russia. The ejection of occidental political influence from Asia, at the least from eastern Asia, has become a well formulated and publicly expressed objective of Japan; and, because blocking the attainment of that new objective, the position occupied by the Soviet Union assumes a new prominence and provocativeness. Secondly, as compared with two years ago, or even with one year ago, Japan finds herself in a better position for a Russian conflict in that China as an organized military threat has been removed from the scene. In the present state of Chinese military affairs, Japan might well expect, if involved in hostilities against the Soviet Union, that, although execution of plans of economic exploitation on the continent would be seriously delayed, Japan would face no acute military problem from China. Thirdly, a change has come about as a consequence of the Munich conference of September 1938.² As late as August 1938 the Konoe³ government showed an unmistakable desire to avoid war against the Russians, and showed the ability to hold in hand Japanese troops known to contain many individual supporters of such a war—for whatever the uncertainties of the Changkufeng incident,⁴ which took place that month, it did prove those two points; but the Munich conference has had a marked effect upon Japanese thinking with regard to foreign relations, and the conference is taken here to mean that no obstacles will be interposed against German pressure upon the Soviet Union. Fourthly, Japan considers the Soviet Union at the present time internally weakened and externally in a position of singular isolation. Fifthly, Baron Hiranuma is premier, and whether or not he favors fighting the Russians he would, because of past associations, find it harder to say no to the nationalists if they come to favor hostilities. These five reasons are all reasons why a Russo-Japanese conflict is more threatening in 1939 than in past years, and are all in addition to the standing arguments for such a conflict (that Japan can not tolerate the air menace of a hostile Vladivostok; that there is no prospect of a peaceful solution of the important Siberian fisheries question in a manner permanently satisfactory to Japan; that Soviet influence in China hinders Japan's policy there; that the repeatedly

² See *Foreign Relations*, 1938, vol. I, pp. 707 ff.

³ Prince Fumimaro Konoye, Japanese Prime Minister prior to January 4.

⁴ See *Foreign Relations*, 1938, vol. III, pp. 441 ff.

strengthened anti-comintern pact⁵ must sooner or later lead to war).

Discretion is the principal force for a policy of peace toward the Soviet Union. Candid and experienced Japanese leaders assuredly recognize the terrific burden that a major conflict would impose upon Japan in the present stage of its history, in spite of the assurance with which some influential military men view the matter.

If there should be a crisis between the Soviet Union and Japan, that it develop into an armed conflict seems to the Embassy more likely under the present administration than under the Konoe Government. Prince Konoe's influence was definitely opposed to war against the Soviet Union; Baron Hiranuma's is not known to be so.

V

A final word needs to be said for the circumstances leading to the recent change of government. As pointed out, there was a specific cause, and that was the presence within the Cabinet of a man with a strong personality who was out of harmony with his colleagues. There was, however, another cause which cannot be described in specific terms but nevertheless had to the Japanese mind every validity. Prince Konoe assumed the premiership before the conflict with China broke out; he met the emergency which arose upon outbreak of hostilities; and he saw things through until the conclusion of what is termed positional military operations. Thereupon there began to be sensed the feeling that the capacity of Prince Konoe for continued leadership had exhausted itself—a feeling which was apparently encouraged by the Prince himself. It is a fact which those who know Prince Konoe have long realized that he is not a dominating character and never has had political ambitions. The position of eminence which he has enjoyed, and which he will continue to enjoy whatever official post he may occupy, derives to no small degree from the eminence of his family, which has intermarried for centuries with members of the Imperial family. He combines all the agreeable personal qualities of the courtier class, but decisiveness is not one of his outstanding characteristics. In the circumstances now prevailing, with grave difficulties to be faced at home, in China, and with the powers, a desire was being increasingly felt and expressed for a new leader, one relatively fresh and in whom the public could impose confidence. The fact that there has been chosen as his successor an ascetic and a leading proponent of the return to medievalism is a significant indication of the present trend in Japan.

Respectfully yours,

JOSEPH C. GREW

⁵ Agreement between Japan and Germany, signed November 25, 1936, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 153; protocol concluded by Italy, Germany, and Japan, November 6, 1937, *ibid.*, p. 159.

762.94/267 : Telegram

The Ambassador in Italy (Phillips) to the Secretary of State

ROME, January 17, 1939—noon.
[Received January 17—9 : 30 a. m.]

18. In a recent conversation with the newly appointed Japanese Ambassador in Rome,⁶ he referred to the subject of the reported new triple alliance between Italy, Germany and Japan which had been mentioned by the American press, but stated that the agreement had not been concluded, giving the impression that Japan was hesitating to commit itself finally in this respect.

I took occasion to mention this to Ciano⁷ yesterday making it clear that I was doing so entirely on my own initiative. He replied that the relations of the three powers were growing closer every day but that it would be premature to speak of an alliance. He said that there were no signed agreements in existence between the three countries except the Anti-Comintern Pact and insisted that no such alliance was contemplated in the immediate future. He added, however, rather significantly that the relations among the three countries were of such an intimate nature that any alliance could come into effect very quickly if and whenever it might be needed. I got the impression that the groundwork had already been laid for an agreement but that it was not considered expedient at the present time to put it into effect.

As stated by Ciano relations of the three countries are such that it is apparently not considered necessary to conclude any such agreement for the present since their continued close cooperation would not seem to require such formal acknowledgment. If however an agreement should be concluded it would appear primarily of significance in indicating that in the judgment of the three States the position of other powers in their regard was such as to require a formal proclamation of their community of interests and military cooperation.

PHILLIPS

762.94/269 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, January 17, 1939—4 p. m.
[Received January 18—7 a. m.]

Following from Mukden :

"59, January 16, 8 p. m., Premier this evening announced that State Council today decided in view of Manchukuo's alliance with

⁶ Toshio Shiratori.

⁷ Italian Minister for Foreign Affairs.

Japan and fundamental enmity toward communism to join Anti-Comintern Pact and immediately to begin negotiations with parties thereto looking to formal adherence".

Repeated to Chungking, by mail to Tokyo.

LOCKHART

762.94/12391

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*⁸

[WASHINGTON,] February 6, 1939.

The British Chargé d'Affaires called to see me this afternoon with a strictly secret message from his Government. The British Government referred first of all to an article which had appeared in the *News Chronicle* in London on January 17 and stated that information which it had now received showed that that article was true in part but only in small part.

The British Government had learned on authority it believed completely authentic that the Japanese Government was not prepared to accept the new form of alliance proposed by Germany and Italy; that it was formulating counter-proposals and that these counter-proposals would envisage an alliance directed against the Soviet. The British Government believed that Japan was greatly concerned at this moment by reason of the possibility that Great Britain and the United States would shut her off from raw materials and other supplies needed in her military campaign and that she was further of the opinion that if a general war broke out in Europe whether or not she was a partner in such an alliance as that proposed made no difference since in any event she could lay her hands upon such possessions of the other powers in the Far East as she desired.

The British Government went on to say that the German policy unquestionably was to persuade Japan to enter this alliance in the new form proposed since, if war broke out, Germany desired Great Britain's attention to be focused in the North Sea, in the Mediterranean and in the Far East and desired for that purpose to utilize both Italy and Japan as "junior partners". Italy, on the other hand, believed that the announcement of the alliance would cause Great Britain and the United States to bring pressure to bear upon France to grant the concessions sought by Italy in order to avert war and that the mere announcement of the alliance itself would have such an effect on public opinion in France as to break down any existing French determination to resist the Italian demands.

⁸ Photostatic copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N. Y.

762.94/275: Telegram

*The Ambassador in Japan (Grew) to the Secretary of State*⁹

TOKYO, February 8, 1939—4 p. m.
 [Received February 8—12: 15 p. m.]

73-77. 1. As confirmed from various reliable sources there can be no doubt that a definite political and military alliance between Japan, Germany and Italy is now under negotiations and that the current discussions center about the precise scope which the agreement shall be given, especially whether it shall be aimed exclusively against Soviet Russia or against other powers as well. It is said that at present Japan favors the more restricted scope but is being hard pressed by Germany and Italy in favor of the broader application.

2. We learn from a reliable source the Germans and the Italians are confident that if either or both should become involved in a war with Soviet Russia, Japan would inevitably profit by the opportunity to attack Soviet Russia, and that in this sense Japan is a natural ally. For that reason they do not wish to commit themselves to assisting Japan if she alone were to become involved with Soviet Russia.

The present position apparently is that the Germans (and the Italians somewhat less ardently) are pressing for an arrangement which would recognize and give effect to their more favorable strategic position as compared with that of Japan in respect of conflict occurring between Soviet Russia and any one of the parties. I am also aware that important moderate influences are being brought to bear to restrain the Japanese Government from entering completely into the German-Italian camp but that counter pressure especially from the younger military officers is strong. Arita¹⁰ who sponsored the original Anti-Comintern Pact is believed to favor the alliance. My British colleague¹¹ tells me that his Government is in close communication with our Government concerning this and cognate subjects.

3. Craigie has given me in strict confidence a copy of his telegram to his Government reporting a conversation on this general subject which on his own initiative he held with the Minister for Foreign Affairs on February 4. That telegram is quoted in paragraph 6 below.

On the ground that the Japanese Government is watching closely and with concern every move and utterance of the American Government, Craigie feels that at this critical moment it would be helpful if I were to seek an interview with the Minister for Foreign Affairs if only to express interest in the current reports of an impending strengthening of the Anti-Comintern Pact on the ground that the

⁹ The five sections of this message, transmitted as telegrams Nos. 73-77, are printed as one document.

¹⁰ Hachiro Arita, Japanese Minister for Foreign Affairs.

¹¹ Sir Robert L. Craigie, British Ambassador in Japan.

American Government could not fail to be concerned in developments of such far-reaching importance.

4. I am not convinced of the desirability of such a direct approach although I have taken informal steps to convey to Arita through indirect and sympathetic channels the thought that before burning her bridges it would be well for Japan to pause and to consider the possible future effects of such an alliance upon Japanese-American relations. It would be definitely my thought, if future conversations with Arita should lead naturally to this subject, to confine myself to emphasizing that the ultimate welfare of Japan is inseparable from the maintenance and cultivation of friendly relations with all countries but more especially with the United States and Great Britain, without whose liberal trade policies, abundant natural resources, and important markets Japan's rapid economic and industrial development would not have been possible. I doubt whether Craigie's conception of what would constitute a stabilized situation in the Far East (see point 2 in his telegram) would fall within the field of practical politics. It seems to me, therefore, that the benefits to Japan of American and British markets and centers are the principal advantages to which the attention of Arita could now usefully be drawn as an offset to whatever advantages might accrue to Japan from the contemplated arrangement with Berlin and Rome. Moral sanctions by a people are not necessarily controllable by their government, whatever their government's policy may be.

5. I feel that the Department is in a better position than am I to determine the desirability or the contrary of my directly approaching this subject with Arita as on my own initiative or under instructions.

6. Copy of telegram sent to Foreign Office by British Ambassador, February 4, 1939.

"I took the occasion of a private and unofficial conversation with Minister for Foreign Affairs today to draw attention to the numerous reports which were appearing both in the Diet debates and the Japanese press of an impending strengthening of the Anti-Comintern Pact. I said that there were even rumors that an actual military alliance was now contemplated between the three powers and desired to impress on His Excellency (as I had previously done to Prince Konoye and Mr. Horinouchi¹²) that, in the popular mind at least, any such action would appear to be directed as much against Great Britain as against the spread of communism. As proof of this one had only to recall the popular interpretation of the existing pact which in my opinion was doing more harm to Japan's relations with the democratic powers than it was to communism. Speaking as from myself I then developed my thesis as follows:

(1) The existing difficulties in Anglo-Japanese relations were great but at least there was still hope for an ultimate settlement

¹² Then Japanese Vice Minister for Foreign Affairs.

if no irrevocable step were taken meanwhile. If an alliance were now to be concluded, which would be regarded as directed largely against Great Britain, the last hope of friendly settlement might vanish and the two countries left to face each other in sterile economic conflict.

(2) The only sure road to the early establishment of a prosperous and peaceful Far East was for Japan, Great Britain, the United States and China to come together in friendly cooperation, it being obvious that in any such combination Japan would, so far as the Far East was concerned, tend to be the senior partner. Such a position could be achieved without resort to monopolistic and exclusionist practices. The growing community of outlook between Great Britain and the United States could and should be directed into channels favorable to Japan if a less uncompromising turn were to be given to Japanese foreign policy. But all such hopes would be dashed if the alliance plan were to materialize and Japan would find herself faced with an increasingly powerful economic opposition against which neither Germany nor Italy could offer much assistance.

(3) During present hostilities and under conditions of today reinsurance with Germany and Italy was to my mind understandable but as a long term policy it could only lead Japan into difficulties and commitments which would long outlive the present "incident".

(4) Argument that recent Anglo-Italian settlement¹³ proved that future Anglo-Japanese settlement would not be effected by any present strengthening of Anti-Comintern Pact was refuted, as was also prevalent belief that entry of Japan into such an alliance would cause Great Britain to moderate her attitude on the China question.

(5) It was for the Japanese Government to consider whether the moment when war psychoses was necessarily prevalent in Japan was the right one to choose for entering into a long term commitment likely to have the most far-reaching consequences. At least let Japan make sure, before she burnt her boats, that there was no better and surer way open to her of bringing peace and prosperity to the Far East and the realization of what was legitimate in her ambitions.

Minister listened attentively to my observations and said that as he had already stated in the Diet, negotiations were proceeding for a strengthening of the Anti-Comintern Pact but he declared categorically that up to the present no agreement had been reached on this point. He denied my thesis that present Anti-Comintern Pact and *a fortiori* any strengthening of it could be regarded as directed largely against Great Britain, adding that, as Foreign Minister at the time of the conclusion of the original pact with Germany, he had invited the British Government to participate and had been sincerely disappointed at their refusal. I here interjected that much water had passed under the bridge since then; that Italy had since acceded and that the pact had undoubtedly been given an anti-British twist which had probably not been the intention of its authors.

¹³ See *Foreign Relations*, 1938, vol. I, pp. 133 ff.

Referring to the question of our existing difficulties in China, Minister for Foreign Affairs stated that he was only awaiting the end of the present Diet session in order to make certain proposals which he believed would go a long way to improving the position of our interests in China. I replied that this was certainly welcome news but that it must be remembered that our outstanding difficulties in China, important as they were, had to some extent been put in the shade by the ominous statements recently issued by the Japanese Government in regard to the future treatment of foreign interests in China. I therefore thought it essential that, in liquidating the past, we should also keep a sharp eye on the future on this point. Minister of Foreign Affairs merely repeated that he had already done his best to make it clear to me that Japan had no intention of trying to exclude foreign interests from China—quite the contrary.

Reverting to my point 2, Minister for Foreign Affairs inquired why I had omitted Germany and Italy from my list of powers, adding that it was undesirable to give the impression that we wished to perpetuate in the Far East the system of hostile camps. I said that I had merely mentioned the powers who unquestionably had the greatest and most permanent interest in reaching a settlement in the Far East but that I felt sure that my Government had not the least wish to exclude any other interested powers such as Germany and Italy. It was however obvious that if the four powers primarily concerned could agree, there would be little difficulty in reaching an understanding with the other interested powers. Minister for Foreign Affairs was inclined to feel that the United States had a greater political and economic concern than Germany but did not seem disposed to press the point.

Finally Mr. Arita promised to treat my observations as strictly confidential and unofficial, adding that he would pass them on to the Prime Minister. He thanked me for having put my point of view so frankly and said he would like to have a further talk with me on this subject in a few days time."

GREW

762.94/277: Telegram

The Ambassador in Italy (Phillips) to the Secretary of State

ROME, February 8, 1939—6 p. m.

[Received February 8—2:25 p. m.]

43. The Soviet Ambassador told me this morning that he had obtained certain information with regard to the possible German-Japanese-Italian alliance which he considered entirely accurate. He said that this information did not come from Rome but from other sources in which he had complete confidence.

The substance of his remarks was as follows: 2 weeks before the arrival of Chamberlain¹⁴ in Rome, the Italian Government had suddenly begun to press for the conclusion of this alliance. The Japanese Government was not anxious at that time to put it into effect

¹⁴ Neville Chamberlain, British Prime Minister.

realizing that Italian and Japanese objectives were not alike. While the Japanese wished the alliance to be part of their anti-Comintern policy, the Italians desired it for the purpose of strengthening their hand, vis-à-vis Great Britain and France and probably the United States. Having failed in their efforts to bring the alliance into effect at that time the Italians are not at present pressing for its completion.

PHILLIPS

762.94/279: Telegram

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

TOKYO, February 9, 1939—1 p. m.
[Received February 9—7:25 a. m.]

80. Our telegram No. 73, February 8, 4 p. m.

1. The Counselor of the Polish Embassy has supplied us, in the strictest confidence, with the following information which throws some interesting light on the attitude of his Government toward the subject of the negotiations discussed in our telegram under reference:

(a) About 2 weeks ago he was called to the Japanese Foreign Office by the Director of the European and Asiatic Bureau and asked to explain the reluctance of the Polish Government to adhere to the Anti-Comintern Pact. The Director expressed confidence that Germany would shortly move toward the Ukraine and he said that the interests of Poland required that she be definitely aligned with Germany and her friends when Germany so moved. The Counselor replied that Colonel Beck,¹⁵ in the course of his recent conversation with Hitler, had made clear Poland's determination to enter neither ideological camp and to pursue a foreign policy calculated to serve her own interests alone, and that this expression of Polish attitude had been received by Hitler with much satisfaction. The Polish Government was impressed by (a) the failure of multilateral treaties as instruments of peace, and by (b) the impossibility of foreseeing the ends to which such treaties might be put. In line with the attitude defined by Beck to Hitler and with its views with regard to multilateral treaties in general, the Polish Government would not adhere to the Anti-Comintern Pact or any other multilateral treaty.

(b) The Counselor explained to us that his Government has a specific reason for not adhering to the Anti-Comintern Pact even in its present form. If Poland were to adhere, she would be, as he put it, "merely a tail to a kite": She would have no voice in the councils of the Anti-Comintern Powers and would probably be dragged against her will into various expansionist adventures, Poland herself being substantially satisfied in respect of the territory she now has. He thought that it would be the height of folly for his Government to become associated with either the Democratic or Fascist camps, and he felt confident that Poland would not move in either direction.

¹⁵ Polish Minister for Foreign Affairs.

2. The Counselor's speculative discussion with regard to the negotiations now taking place between Japan, Germany, and Italy was substantially along the lines of paragraphs 1 and 2 of our telegram under reference.

3. I urgently request that in any distribution outside the Department of the information contained in this telegram no reference be made to the source thereof.

GREW

762.94/275: Telegram

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

WASHINGTON, February 10, 1939—6 p. m.

33. Your 73, February 8, 4 p. m. We are in entire agreement with you as to the desirability of Japan's not proceeding with the proposed alliance. We desire to leave to your discretion the form of any further approach you might advantageously make as well as what you might appropriately say. We believe that whatever approach you may make should be as on your own authority. We suggest that instead of saying "with all countries but more especially with the United States and Great Britain" it would be preferable that you say "with all countries, important among which is the United States". You will, of course, be careful to avoid saying anything which might be taken to imply that this country might be expected to compensate Japan by anything specific for an abandonment by Japan of any purpose to consummate the proposed alliance. You might, however, if it seems advisable to you, take occasion to emphasize the conviction that the best interests of Japan as well as of all other nations will best be served by universal support of principles and policies which tend to broaden rather than to narrow the basis for friendly and mutually beneficial relations among nations in general.

HULL

762.94/280: Telegram

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

TOKYO, February 14, 1939—10 p. m.
[Received February 14—10:45 a. m.]

89. Department's 33, February 10, 6 p. m.

1. I have expressed to the Foreign Minister informally my personal opinions with regard to the current negotiations with Germany and Italy. I am satisfied from this talk with Arita and also from various journalists who are in close touch with him that the decision, what-

ever it may be, will be reached only after full consideration of all the factors involved.

2. My latest unconfirmed information is that the Japanese Government is still insisting upon limiting the scope of the proposed alliance to exclusive application to Soviet Russia.

GREW

762.94/287 : Telegram

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

TOKYO, February 20, 1939—9 p. m.

[Received February 21—6 a. m.]

101. 1. In a recent after dinner conversation between the Minister of Foreign Affairs and my British colleague, held on the initiative of the former and on the understanding that the views exchanged were to be entirely unofficial, Arita stated categorically that while a strengthening of the Anti-Comintern Pact was now being seriously studied by the Japanese Government, negotiations on the subject with other powers had not yet commenced. In any case there was no question whatever of Japan assuming any commitments in Europe and the purpose of any new pact (as of the present pact) would be protection against anti[*sic*]-Comintern activities.

2. To Craigie's inquiry whether the proposed pact would be virtually an alliance against Soviet Russia, the Minister replied that there existed varying degrees of understanding with regard to mutual protection but it was not possible as yet to say whether the new agreement, if concluded, would assume the character of an alliance. In any case, however, the British Government could rest assured that it would not be aimed at any British interest. The present state of Soviet-Japanese relations was becoming a matter of great and increasing concern to the Japanese Government, particularly with regard to the question of the fisheries, and the communist danger in China also rendered some form of remedial action necessary.

3. The Minister drew a clear distinction between the Rome-Berlin Axis and the Anti-Comintern Pact. Whatever the press might say, the Japanese Government had no intention of joining the Axis and he believed that confusion of thought on this point was responsible for much of the misapprehension in regard to the Anti-Comintern Pact. Even in the ideological field Japan had not those affinities to totalitarian states which appeared to be assumed by the British press. The Japanese system of "kodo" stood halfway between democratic and totalitarian government systems and, although during the present emergency strengthening of state control became necessary, nevertheless in Japan individual liberty would always be preserved to the utmost compatible with national security.

4. When the Minister pointed out that if Japan should abstain from strengthening the pact, Great Britain would hardly be in a position to protect her against Soviet Russia, Craigie replied that this might well be so but that for the reasons already given the remedy sought by Japan was in his opinion worse than the disease.

5. With regard to the question of peace in China, Arita seemed to take kindly to Craigie's personal suggestion that some form of collaboration between say Great Britain, the United States and Germany might ultimately offer the best method but that the strengthening of the pact and the consequent accentuation of division between the two camps would unfortunately render such collaboration more difficult. The Minister, however, observed that as long as Great Britain continued to recognize Chiang Kai Shek as head of the Chinese National Government, it was not clear how Great Britain could at present assist in promoting peace, seeing that the state of Japanese public opinion rendered negotiations with Chiang impossible. Craigie replied that the real bar to peace seemed to him to lie in the character of the Japanese conditions of peace and the failure of the Japanese Government to reduce to more specific terms the vague and ominous statement of December 22.¹⁶ The Minister, however, said that on this point it was still impossible to be more definite.

6. Arita recently mentioned this conversation to me on his own initiative and said that he had authorized Craigie to inform me.

Code text to Chungking by mail.

GREW

762.94/286 : Telegram

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

Тоkyo, February 21, 1939—8 p. m.
[Received February 21—10 a. m.]

104. My 101, February 20, 9 p. m. via Shanghai. A prominent member of the House of Peers tells me that former Ambassador Debuchi at the general meeting of the Budget Committee of the Diet on February 17 put the following interpellation to the Government after the official stenographers had been withdrawn:

“At the time of the conclusion of the Anti-Comintern Agreement the Government emphasized in the statement issued by the Foreign Ministry¹⁷ the following two points: (1) the pact does not aim to form any special international bloc, (2) the pact has no intention to aim at any specific nation but to check the activities of the Comintern.”

¹⁶ Statement by the Japanese Prime Minister, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 482.

¹⁷ *Ibid.*, vol. II, p. 155.

The interpellator then asked: "Does the present Government also adhere to the aforesaid two points?"

In reply to the interpellation the Prime Minister, Baron Hiranuma, said that the Government adheres to the policies mentioned.

My informant further tells me in strict confidence that the foregoing interpellation was made at the direct instance of the Minister of Foreign Affairs and the Prime Minister and that Hiranuma's reply was emphatically expressed. Their purpose, he says, was to indicate that while the Government advocates a strengthening of the Anti-Comintern Pact, the Government is nevertheless determined to avoid any European commitment of a broader nature than to check Comintern activities.

GREW

762.94/301

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

No. 3709

TOKYO, February 27, 1939.

[Received March 20.]

SIR: [Here follows review of material reported in the Ambassador's telegram No. 73, February 8, 4 p. m., page 6, and subsequent despatches.]

From the foregoing account, some not unreasonable conclusions are permissible.

I cannot persuade myself on the basis of information available which can be regarded as reliable that Japan will consent to an unqualified extension to Tokyo of the Rome-Berlin axis, and thus assume the risks which accompany full membership in that camp of involvement in war with Great Britain and possibly with the United States over issues which are either of remote or no interest to Japan, especially when the measure of security which could thus be procured from such allies would be severely restricted.

The withdrawal of Japan from the League of Nations was more than a renunciation of the principle of collective security. It was one manifestation of Japanese determination to concentrate her energies and resources on the achievement of long-cherished aspirations to paramountcy in the Far East. The position of Japan at that time of dedicating herself to the task of eliminating occidental political influence from East Asia was a curious one. Largely because of her inclusion among the Principal Allied and Associated Powers, Japan found herself at the end of the Great War with a voice in determining the destinies of Europe. Never before in history had an Asiatic nation had a place in the concert of Europe and shared in decisions which were thereafter to determine for all time the fate of millions of Caucasians. It seemed as though the opportunity had come to translate

into actuality the vision of Japan as a world power. Vanity obscured wisdom, and Japan involved herself in problems of not the least concern to her people. One contemplates today with bewilderment the fact that the assent of Japan is all that is necessary for the completion of Rumanian title to Bessarabia. It was obvious that neither did Japan have the political power and prestige nor did she have the basis in logic to retain her involvements in Europe and simultaneously to strive to eliminate Western influence from the Far East. Dictated by these circumstances, Japan has liquidated these involvements. The question whether Japan intends again deliberately to assume such involvements at a highly critical time, has, I believe, been answered by the reply of the Prime Minister to Mr. Debuchi.

One point to which I have already alluded—the apparently deliberate desire on the part of the Minister for Foreign Affairs to keep alive if not to cultivate the impression on the part of the British that the conversations with Germany and Italy might possibly result in an alliance—deserves more than passing mention. The feeling is definitely abroad that the initiative in these conversations has been taken by the Japanese; and I think that it is now fairly clear that the conversations revolve primarily around the Soviet Union or communist activities, or both. If that is so, one can explain Mr. Arita's attitude toward my British colleague only by assuming that the Japanese Government hopes to utilize the conversations in bringing about a modification of British attitude with regard to the situation in China: that Japan is giving serious thought to associating herself with the totalitarian states and that, if Great Britain wishes to keep Japan from joining the hostile camp, a settlement over China cannot be indefinitely delayed. It will be noted (see paragraph numbered 2, enclosure no. 1)¹⁸ that my British colleague made reference in his conversation with Mr. Arita to the effect of an alliance on British attitude toward Japan.

Another purpose of a minatory character in the initiation by Japan of these conversations suggests itself, and that relates to Japan's fishery dispute with the Soviet Union. As the fishing season in Siberian waters begins in April, conversations with regard to a new agreement between the Japanese and Soviet Governments have now been resumed. The point cannot be labored, but the suggestion at least is warranted that the creation of an impression that some plan affecting the Soviet Union is on foot might be conceived to affect in Japan's favor the course of these conversations.

In concluding this discussion, I desire again to observe that our thoughts on this matter at this time must perforce be largely speculative.

Respectfully yours,

JOSEPH C. GREW

¹⁸ See quotation in paragraph 6 of telegram No. 73, February 8, 4 p. m., p. 6.

762.94/293 : Telegram

The Ambassador in Italy (Phillips) to the Secretary of State

ROME, March 3, 1939—noon.
[Received March 3—9:33 a. m.]

71. My No. 18, January 17, noon. My Soviet colleague informs me this morning that he has definite information that a conference between representatives of Germany, Japan and Italy will take place during the month of March in Berlin for the purpose of elaborating the text of and signing the alliance between the three countries. He added that the Japanese delegation which left Tokyo on February 2nd for Berlin consists of Kazuma of the General Staff, Abe of the Marine and Ito of the Foreign Office.

PHILLIPS

[For telegram No. 120, March 7, 6 p. m., from the Ambassador in Japan, see *Foreign Relations, Japan, 1931-1941*, volume II, page 163.]

762.94/299 : Telegram

The Ambassador in Italy (Phillips) to the Secretary of State

ROME, March 10, 1939—8 p. m.
[Received March 10—3:45 p. m.]

84. My 76, March 7, 6 p. m.¹⁹ I mentioned to Ciano this afternoon the reports current in Rome with regard to an Italian, German and Japanese meeting in Berlin with a view to elaborating and signing a three cornered alliance. I said that there was a further report that the Italians had decided not to participate and that the conversations therefore would be bilateral in character.

Ciano denied categorically that there was any plan on foot between the three powers to bring the alliance into effect. The Italians were not planning to engage in any such conversations and he seemed vague as to the nature of the reported discussions between the Germans and the Japanese. He thought that if these were to take place they might well have reference to an exchange of anti-Comintern information. He explained as he has done before that he could not give me any definite assurance that in the future the three powers might not decide to extend the pact into an alliance but he convinced me that the Italians at least were not taking any active steps in this

¹⁹ Not printed.

direction at the present time. He said that the three Governments were in the closest touch and were constantly exchanging information. General Goering²⁰ he added would come to Rome shortly for this purpose and other exchanges would in the normal course take place.

PHILLIPS

761.9815 Manchuria/96 : Telegram

The Chargé in the Soviet Union (Kirk) to the Secretary of State

Moscow, March 17, 1939—9 a. m.

[Received 9:25 a. m.]

112. Yesterday's press published the speech of Stern, Commander-in-Chief of the first Far Eastern army which took part in the action at Lake Khasan last summer.²¹ He emphasized the completeness and finality of the Soviet victory in this engagement and stated *inter alia* that documentary evidence had been captured that indicated the Japanese had carefully prepared this "aggression" beforehand. One of the results of the engagement at Lake Khasan, Stern stated, had been to reveal that the Soviet armed forces in the Far East were better armed in all basic branches than the Japanese Army. Stern stated that although it might be believed that the Japanese would draw the logical conclusions from the incident at Lake Khasan this apparently was not so and quoted recent speeches of Japanese leaders as evidence of Japanese aggressive intention against the Soviet Union. Stern referred in this connection to the extent and development of Japanese military preparations in Manchuria and stated that since 1934 the length of railroads in Manchuria had been increased from 6.5 to 11,000 kilometres; the Japanese forces in Manchuria and Korea had increased from 95 to 400,000 and "these transfers were continuing at the present time"; the number of airdromes in Manchuria had increased from 130 to 250 during the same period. Stern likewise charged that the Japanese were preparing an attack on Outer Mongolia. He concluded that the Soviet Far Eastern army is many times more powerful than it had been in 1934 and was fully equipped to defend the Soviet Far East.

KIRK

²⁰ President of the German Reichstag, Minister President of Prussia, and Reich Minister for Air.

²¹ For correspondence concerning border hostilities, see *Foreign Relations*, 1938, vol. III, pp. 441 ff.

740.00/642 : Telegram

*The Ambassador in Japan (Grew) to the Secretary of State*Tokyo, March 21, 1939—5 p. m.
[Received March 21—7:39 a. m.]

138. Reference European crisis.

1. We hear that one of the local American correspondents has cabled that the German Ambassador in Tokyo has asked the Japanese Government for assurances of support. We have no reason to believe that the story is true, and assume that its only basis is the call which the Ambassador made on the Minister for Foreign Affairs to communicate the German statement with regard to the seizure of Czechoslovakia.

2. Editorial comment on the situation now in process of developing in Europe is uninteresting, due presumably to absence of directive from official quarters, where there apparently still exist differences of opinion and confusion of thought with regard to the position which should be taken by Japan. Such comment is confined to such commonplaces as: (a) there exists no moral justification for action against Germany so long as no effort has been made to satisfy Germany's needs for basic raw materials; (b) Mussolini holds the key to the situation and may be expected to clarify his position by the address which he is to make next Sunday; (c) the European crisis will operate to Japan's benefit, as Great Britain and France will not continue to supply munitions and funds to China.

3. We hear from several reliable sources that until quite recently majority opinion in Japanese official circles ran substantially along item (c) above, but that what might be described as dominant official opinion today is that an indefinitely prolonged state of uneasiness and uncertainty in Europe would better serve Japan's interests than a clearing of the atmosphere by war: for the reasons that (a) war in Europe would probably lead to the eventual involvement of the United States and Japan on opposite sides, and (b) the elimination of Germany and Italy as to [*sic*] which threaten the peace of Europe would leave the victors a free hand to deal in turn with Japan. For these reasons the hardening of British and French attitude toward Germany was noted here with concern, but paradoxically enough this concern has been somewhat allayed by the British invitation to Russia to join in concerted resistance against German aggression. There is a lively belief that the British Government has again made the blunder of giving Russia a voice in the settling of the affairs of Europe and has thus stultified the chances of effective concerted action being taken against

Germany. It is thought that the eastern European nations which occupy an exposed position vis-à-vis Germany might possibly be induced to associate themselves with Great Britain and France in economic corrective measures, but that the opening up of possible Russian military action against Germany will make certain the neutrality of such nations, especially Poland.

GREW

762.94/302a : Telegram

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

WASHINGTON, March 21, 1939—7 p. m.

67. The American press carries an Associated Press report dated Berlin, March 20, stating that Japan's "congratulations" were conveyed, by the Japanese Ambassador in Berlin, to the German Chancellor "on the newly acquired territory in Czechoslovakia". Unless you perceive objection, please seek an early interview with the Minister for Foreign Affairs and inquire orally, as under instruction from and for the information of your Government, whether it is a fact that such congratulations were offered.

WELLES

762.94/303 : Telegram

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

TOKYO, March 22, 1939—8 p. m.

[Received March 22—10 a. m.]

140. Department's 67, March 21, 7 p. m. As the Minister for Foreign Affairs was occupied all day in the Diet, I called on the Vice Minister and made, as under instructions and for information of my Government, the oral inquiry desired by the Department. The Vice Minister said that he would investigate.

This evening the Vice Minister informed me that although the Foreign Office has received no report as to how instructions were carried out in Berlin, the Japanese Ambassador in Berlin was directed to convey to the German Minister for Foreign Affairs "congratulations on the appropriate measures taken by Germany in the face of the threat of Slovakian independence, which measures it is believed will contribute to the peace of Europe and ultimately to the peace of the world".

The Vice Minister states that no congratulations were sent direct from the Japanese Minister for Foreign Affairs to either the German Chancellor or the German Minister for Foreign Affairs.

GREW

740.00/662 : Telegram

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

TOKYO, March 23, 1939—7 p. m.
 [Received March 23—9:30 a. m.]

142. While speculation in Tokyo is rife as to the reasons for Arita's visit yesterday to Prince Saionji²² (he saw the Prince's secretary Baron Harada), a five-Minister conference last night and a visit of the Prime Minister to the Emperor this morning, unofficial comments from various informed quarters indicate that these talks have been of a general nature concerning the European situation and Japan's action in the event of a European war. The consensus of opinion is that Japan will endeavor to avoid embroilment in such a war, at least at the start and that a military alliance with Germany and Italy is definitely in the discard.

The Vice Minister for Foreign Affairs told me today in reply to my informal inquiry that no negotiations for a strengthening of the Anti-Comintern Pact have yet commenced and that this general subject is still confined to inter-ministerial discussion in Tokyo.

GREW

762.94/310 : Telegram

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

TOKYO, March 31, 1939—8 p. m.
 [Received March 31—1:02 p. m.]

161. Following is a paraphrase of a telegram sent to his Government by the British Ambassador reporting a recent talk with the Minister for Foreign Affairs concerning the strengthening of the Anti-Comintern Pact:

"1. I reminded Mr. Arita that at our last interview he had stated that no negotiations had yet started for the strengthening of the Anti-Comintern Pact. What was the position today? He replied that negotiations had not started yet and that in any case Japanese Government remained firmly opposed to accepting any commitments or entanglements in Europe. On my pointing out that an alliance directed against U. S. S. R. was likely sooner or later to involve Japan in the very European entanglements to which the country was opposed, Mr. Arita replied that if Great Britain were now to invite Soviet Russia to take part in any combination of powers dangerous repercussion on Anglo-Japanese relations was inevitable. I observed that it was Germany's annexation of Czechoslovakia which has brought Russia into European politics again and that it was useless

²² Surviving Japanese *Genro*, or "Elder Statesman."

to blame us for the inevitable effect of this action. Soviet Russia had stood aside at Munich but this had not deterred Germany from tearing up the Munich Agreement. The right course for Japan was surely to keep clear of any further commitments at least until the present situation had cleared; otherwise I feared that His Excellency would be committing his country to entanglements which he might live bitterly to regret—entanglements with countries whose political and economic weaknesses and lack of reliability were daily becoming more obvious to the whole world. Mr. Arita adhered to his point that Japan was prepared to combat communism by all means and in association with powers holding the same views.

2. Although Minister for Foreign Affairs was guarded in what he said, I was left with the strong impression that Japanese Government have now decided—or virtually decided—to convert the Anti-Comintern Pact into an alliance against Soviet Russia. I also learn from him that this project which at one moment seemed to have received its *coup de grace* has been renovated by the effect on the army of the 'irresistible' power displayed by Germany in the Czechoslovak coup."

I am not yet in a position to substantiate Craigie's impression and information as set forth above in paragraph 2 nor his belief that the coming negotiations will take place in Tokyo instead of in Berlin but shall follow developments as closely as possible.

GREW

762.94/319: Telegram

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

TOKYO, April 19, 1939—4 p. m.
[Received April 19—3:46 a. m.]

186. During the last few days I have received informal and personal assurances from several well informed Japanese, of unimpeachable reliability, that I need no longer worry over the possibility of Japan entering into a general alliance with Germany and Italy.

GREW

762.94/321: Telegram

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

TOKYO, April 20, 1939—3 p. m.
[Received April 20—10:50 a. m.]

188. My 186, April 19, 4 p. m. As opportunity has offered I have been quietly emphasizing to certain trustworthy Japanese whom I could count on to pass my observations on to influential quarters the

dangers to which American-Japanese relations would be exposed if Japan should associate itself with Germany and Italy in a general alliance (see Department's 33, February 10, 6 p. m.). The position which I took was that, if a general war were to break out in Europe, the likelihood should be discounted of the United States not becoming involved—naturally on the side of Great Britain and France—and that it would be idle to expect that in those circumstances relations of peace could be maintained between the United States and Japan if Japan were aligned with Germany and Italy. The assurances mentioned in my telegram under reference were responsive to the several approaches which I had made along the lines above indicated.

2. I had a most significant conversation last night with the Minister of the Navy at the dinner which he gave in honor of the officers of the *Astoria*.²³ Admiral Yonai, on his own initiative and to my surprise, opened the conversation by remarking that he understood that I was concerned over the possibility of Japan becoming involved in Europe. He said slowly and with emphasis that "Japanese policy has been decided" and that I had now no longer cause for concern. He admitted that there is an element which advocates Fascism for Japan and therefore the linking up of Japan with Germany and Italy but he said that this element has now been "suppressed". He went on to say with some feeling that Japan can never be either a democracy or an authoritarian state but must stand apart from either group although cooperating with both groups toward the maintenance of friendly relations.

3. I later repeated to Yoshizawa,²⁴ who also attended the dinner, the statement made to me by Admiral Yonai. Yoshizawa said that he had not known of the decision to which Yonai referred and he assumed that it must have just been taken. He added that he knew that the navy had "the balance of power" between the opposing sides on this important question, and that the frank statement of the Admiral might be regarded as a definite indication of the Japanese Government's intention to refrain from becoming involved in European difficulties. He cautioned me, however, against entering into [apparent omission] would necessarily not be formulated some new arrangement for combating communism.

4. I add a brief outline of other points brought up in my conversation with the Admiral in order to indicate the favorable trend which I believe is about to set in.

5. Admiral Yonai said that there was being keenly felt the need for restoring good relations with the United States. I told the Ad-

²³ See vol. iv, pp. 455 ff.

²⁴ Director of the American Affairs Bureau, Japanese Foreign Office.

miral frankly that many of the causes for the present state of American feeling against Japan could readily have been avoided and where such causes still exist could readily be eliminated. I referred, for example, to the safeguarding of American properties. He was familiar with this subject and said that the cause for these attacks was being investigated and that effective steps would be taken to correct them. He then passed on to the subject of naval limitation. He said that large navies are "dangerous toys". He regretted that an agreement to limit naval armament is not feasible at the present time but he thought it essential to keep in mind that an agreement must soon be reached, as progressive raising of naval requirements by each of the powers in turn could otherwise eventually result only in bankruptcy or a general explosion. He said repeatedly "there must be disarmament".

6. I am strongly of the opinion that the visit of the *Astoria* has been an important factor in bringing about the trend which the Admiral's statements reflect.

GREW

762.94/324 : Telegram

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

TOKYO, April 26, 1939—9 p. m.

[Received April 26—11:30 a. m.]

203. Our telegram No. 188, April 20, 3 p. m. Following from Osaka: ²⁵

"April 26, 5 p. m. At a casual meeting today with Mr. Kensato, Chief of the International Affairs Section of the *Osaka Mainichi*, he told me in confidence 'although strong pressure has been brought to bear the Japanese five Minister[s] at yesterday's extraordinary meeting in Tokyo decided that Japan would not join the Rome-Berlin Axis and would remain neutral in the event of war involving those Governments; that the Navy is particularly opposed to any military commitments to the Rome-Berlin Axis nations and that the Emperor considers it highly desirable to improve relations with America and Britain.

President Roosevelt's action in ordering the immediate return of the American Navy to the Pacific Coast is resented, many Japanese considering this as evidence that American Embassy has not kept Washington adequately informed of Japanese trends and that as a result Japan might be forced into a course of action that is an alliance displeasing to many liberals.' Makinson."

GREW

²⁵ From George A. Makinson, Consul General at Osaka.

762.94/339 : Telegram

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

TOKYO, April 27, 1939—11 a. m.
[Received April 27—1:40 a. m.]

204. For Hornbeck. My letter April 12.²⁶ Prince Chichibu ²⁷ dined with us last night which gave me a favorable opportunity to discuss with him the subject under reference. I made full use of the opportunity.

GREW

794.00/145 : Telegram

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

TOKYO, April 27, 1939—5 p. m.
[Received April 27—11:45 a. m.]

205. My 198, April 24, 10 p. m.²⁸ There follows our analysis of present trends of thought in authoritative Japanese circles with regard to reformulation of Japanese foreign policy in the light of the European situation. This analysis represents an attempt to reduce to some form of order information, some of it contradictory, received from various responsible sources.

1. It would be premature to say that there now exists a Cabinet crisis but the position of the Cabinet is one of insecurity. The Minister for Foreign Affairs informed us privately 2 days ago that although press reports give the impression that the Cabinet is preoccupied with the question of relations with Germany and Italy the Cabinet is actually discussing a number of other problems both domestic and international. Some of the foreign correspondents are of the opinion that it is the question of entering into a military alliance with Germany and Italy which is primarily responsible for the insecurity of the Cabinet; but we believe that there is now little dissension over that point, which, as the Minister of the Navy stated to me, has been decided in the negative. There are other problems making for the insecurity of the Cabinet. These problems, although recognized by [*lying in*] three separate areas, are nevertheless interrelated. They

²⁶ An attached notation by Frank Duvall, of the Office of the Adviser on Political Relations, dated May 2, reads: "The letter of April 12, 1939, from Ambassador Grew at Tokyo is regarding the possibility of Japan's entering a military alliance with Germany and Italy. Mr. Grew's letter refers to a letter of February 14, 1939, from Mr. Herschel Johnson at London to the Under Secretary on the same subject." Letters of April 12 and February 14, 1939, not found in Department files.

²⁷ Brother of the Japanese Emperor.

²⁸ Not printed.

are to be found: first, in Japan itself; second, in China; and third, in Europe.

2. Of the first we cannot speak with certainty. It appears that the Prime Minister has committed himself with powerful religious and other nationalistic elements (which find their membership among civilians as well as the military) to bring about "national spiritual development". This thought, when divested of well nigh incomprehensible dogmas, can be reduced to the doctrine of revesting the Emperor with temporal power now delegated to various agencies. The Diet, for example, would be done away with. There would then be set up an authoritarian government in which the Emperor would ostensibly at least be dictator. The Prime Minister has already made cautious but veiled public references to "spiritual development" but he now realizes that the aims which he has engaged himself to help bring about are entirely chimerical. Several of our informants believe that the Prime Minister has been caught between the saner elements in the Government and the nationalistic groups initiating this movement and will be obliged to resign. The latter groups incidentally are to be counted among the influential supporters of the proposal to conclude a military alliance with Germany and Italy. These groups, as one informant put it to me, are "better organized" than their opponents.

3. Although there is no dissent within the Cabinet on China policy the Cabinet is obliged to take cognizance of the growing confusion in business circles and among the intelligent classes with regard to precise Japanese objectives in China. The controlling official view has been that (a) China can be won over ultimately to cooperate with Japan against Great Britain and Soviet Russia and (b) the United States can be "separated" from Great Britain and induced to take a neutral position; thus leaving Japan free to eliminate Great Britain from the Far East. The liberal group has contended that it is impossible for Japan to drive a wedge between the United States and Great Britain, and the message of the President to Chancellor Hitler,²⁹ along with the swing in the United States away from isolationism, has acted powerfully to lend authority to that view.

4. The Minister for Foreign Affairs expressed to us optimism over the immediate future in Europe, and I believe that this reflects the predominant view in official Japanese circles. Although an alliance with Germany and Italy does not now appear to be under active consideration, we nevertheless continue to hear of some other arrangement being discussed between the German and Japanese Governments. Some of our sources state that this is the much talked of "strengthen-

²⁹ Telegram of April 14, 1939, printed in vol. I, section entitled "President Roosevelt's Messages of April 14 to Germany and Italy . . ."

ing of the Anti-Comintern Pact", while others believe that it is to be ostensibly economic in character but with political implications and not to be confused with the trade agreement under negotiation since the end of last year. There are certainly indications that conversations are still being carried on with Germany and Italy and these conversations must be expected to continue at least so long as grave concern is felt here over the shape which the anti-aggression arrangement, now under discussion between the British and Soviet Governments, might take. If there should be contracted by the latter Governments anything in the form of an alliance which could be expected to form a springboard for concerted action in the Far East by the democratic powers, there might well occur reconsideration of what appears to be at least a tentative decision to keep from making military commitments.

GREW

762.94/325 : Telegram

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

PARIS, April 27, 1939—7 p. m.
[Received April 27—2: 56 p. m.]

837. The Chief of the Far Eastern Division of the Foreign Office read to us this morning telegrams received recently from the French Embassy at Tokyo regarding German efforts to strengthen Japanese collaboration with the Axis. The gist of these telegrams was that the Germans had in fact urged Japan to enter into a military alliance with Germany; that there had been a "cat and dog fight" in Tokyo regarding the answer to be made to this proposal; that the moderates had won out; and that a week ago the Privy Council had taken a decision to agree to strengthen "on an ideological basis" the Anti-Comintern Pact, but to refuse the offer of a military alliance. It was also reported that the Germans had proposed that the former German colonies in the Pacific should be returned to Germany and that certain ports in China should be placed at their disposal.

The Embassy reported that by agreeing to strengthen ideologically the Anti-Comintern Pact the moderates hoped that they had appeased both the extremists in Japan as well as the Germans while at the same time intending to see to it that any strengthening of the pact which might take place would be largely a matter of words.

BULLITT

740.00/1192 : Telegram

*The Ambassador in the United Kingdom (Kennedy) to the Secretary of State*LONDON, April 27, 1939—7 p. m.
[Received April 27—3 : 25 p. m.]

570. I saw Halifax³⁰ today to urge him to take a strong position on the barter situation. The matter is now in the hands of the technical experts, but I am keeping on top of it.

While I was there the Japanese Ambassador came out and I asked Halifax some questions about his visit. He told me he understood the Germans were trying to persuade the Japanese that the English overtures to Russia were really a gesture against Japan and that the Germans were urging the Japanese to turn the Anti-Comintern Pact into an offensive and defensive alliance. Halifax said he assured the Japanese Ambassador that any talks they had with Russia did not presuppose any mixing up in the Japanese proceedings at all and that the British were inclined to confine themselves wholly to the situation in Europe, provided the Japanese behaved themselves reasonably well. Halifax said their information indicated that the Japanese were becoming a little more reasonable due to their own situation becoming a little more untenable.

KENNEDY

762.94/340 : Telegram

*The Ambassador in Japan (Grew) to the Secretary of State*TOKYO, May 5, 1939—6 p. m.
[Received May 5—2 : 25 p. m.]

215. Our 205, April 27, 5 p. m., paragraph 4.

1. Recent intense activity among high Government officials culminated yesterday in a long audience of the Emperor by the Minister for Foreign Affairs and the subsequent summoning to the Foreign Office of the German and Italian Ambassadors. While strict secrecy is being preserved as to the decision reached, informed sources believe that Japan has refused to enter a military alliance with the totalitarian states which might embroil this country in a general European war and would bind Japan to go to war with Soviet Russia at any time chosen by Germany for an attack. It is believed in some quarters that a formula has been evolved in the nature of a mutual assistance

³⁰ Viscount Halifax, British Secretary of State for Foreign Affairs.

defensive pact against Soviet Russia but that this formula falls short of a general military alliance. It remains to be seen whether the new proposal, whatever [it may be?], will prove acceptable to Germany and Italy.

2. Am informed unofficially there has recently been a strong recrudescence of pressure brought to bear on Japan by Germany and Italy but that the entire Cabinet, with the exception of the Overseas Minister, General Koiso, and the War Minister, is opposed to a general alliance. General Itagaki himself is believed to be opposed to such alliance but has been obliged to represent the views of the extremists in and out of the Army.

3. My French colleague accepts as reliable reports that with a view to bringing Japan into the German camp the German Government recently threatened to denounce the Anti-Comintern Pact unless Japan consented to implement the commitment for an alliance alleged to have been signed several months ago by General Oshima, the Japanese Ambassador in Berlin, who thereby exceeded his instructions, and that Japan thereupon proposed some sort of secret agreement but that Germany declined this proposal.

4. None of the many reports now pervading Tokyo is as yet susceptible of confirmation but I think it is safe to assume that those press correspondents who have cabled to the United States reports that a general alliance has been accepted by Japan have no certain ground for their beliefs.

GREW

762.94/373

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

No. 3879

TOKYO, May 8, 1939.

[Received May 29.]

SIR: In a series of telegrams, the last of which is my 215, May 5, 6 p. m., I have endeavored to furnish the Department currently with information indicating the trend of authoritative Japanese thought with regard to the negotiations which are in progress between Japan and Germany and Italy with regard to a new arrangement by treaty which would afford a further manifestation of the special relations which exist among those three countries. I had the honor to present in my despatch no. 3709, February 27, 1939, a discussion of the general principles by which Japan has been guided in its relations with the countries of Europe. I referred to the liquidation of the involvements of Japan in the affairs of Europe which arose out of her participation in the various treaties of peace that concluded the Great War, and I raised the question whether she would again assume commitments even more hazardous than those of which she has just divested herself.

We now know as a definite fact that the advantages of Japan's associating herself with Germany and Italy in a treaty of alliance have been explored; we know, further, that there have been conversations between the Japanese and German Governments with regard to some new treaty—not necessarily a military alliance; but whether a military alliance has been the subject of formal discussions is a question which need not detain us. The Minister for Foreign Affairs said to me that there had been no “negotiations” or even “preliminary conversations”, but that there has been a conveyance of views back and forth is implicit in the ironic observation which Mr. Arita made to me that it is he and not Mr. Shiratori, the Japanese Ambassador at Rome, or General Oshima, the Japanese Ambassador at Berlin,—both ardent advocates of the tripartite alliance idea—who is responsible for the conduct of Japan's foreign relations. I do not attach much importance to the question whether or not formal negotiations between the governments concerned have taken place. The fact which is impressive is that there are at work in this country powerful and sinister influences supporting the machinations of Mr. Shiratori and General Oshima; and if these influences should prevail, the fact that Germany could not see its way clear to accepting the Japanese proposal of an alliance against Soviet Russia should not delay the conclusion of a treaty to the entire liking of Germany and Italy. Fortunately, the indications at this moment of writing are that these influences are not in the ascendancy.

I propose in the present review of events bearing on the question of Japan's relations with Germany and Italy, to begin with the reference to this question by the Prime Minister in his conference with press correspondents on March 29. There is no official version of his statement, but the tenor of his remarks was that the national spirit of Japan is not reconcilable with either democracy or fascism, that Japan intends to refrain from joining either the democratic bloc or the fascist bloc, but hopes to cooperate with both in the interests of peace. The majority of my colleagues regarded this statement with only passing interest; but when it is realized that there are, as I shall hereafter relate, elements favoring the alliance with sufficient influence to threaten the security of the present Cabinet, the apparently commonplace statement of Baron Hiranuma's assumes important proportions.

The next landmark is the situation developing out of the German erasure of the Czecho-Slovakian state, the Japanese reaction to which was discussed in my 138, March 21, 5 p. m. Reference was made in that telegram to the feeling which at one time prevailed here that a war in Europe would work to Japan's advantage, as it would give Japan a free hand in China; to the succeeding phases of doubt and

then of alarm over the probable repercussions in the Pacific of a war in Europe; and finally to the relief with which the report was received that Great Britain had invited the Soviet Union to join in a common defense against German aggression. The greatest confidence was expressed that Poland would not enter any system of collective security against Germany of which the Soviet Union was a member, and there was undisguised satisfaction over the refusal of Poland to align herself with Russia. It was thought that the immediate danger of a war in Europe had been tided over and that the situation there would revert to a chronic condition of alarms and excursions, which would nicely fit the Japanese book. The turn which events subsequently took, however, was unexpected, and, while the importance of the Anglo-Polish pact of mutual assistance²¹ is discounted to some extent, the Anglo-Soviet conversations with regard to a separate arrangement for mutual assistance brought realization of a possible danger to Japan closer to home than a system of collective security against Germany. Press despatches from Europe disclosed that the Soviet Government had proposed that the arrangement presented by the British Government, which would become operative only in the event of aggression by Germany, be enlarged to include provision against Japanese aggression. My British colleague assured the Japanese Government that the Soviet proposal is not acceptable to his Government, but I am informed by Japanese sources that, in the Japanese view, the absence of any explicit undertaking on the part of Great Britain to guarantee Soviet frontiers in the Far East would not remove concern lest the close association deriving from the two European Powers' arrangement, if established, against Germany bring about a concerting of actions and policies for the protection of common interests in the Far East.

I do not pretend to know at what point renewed consideration began to be given by the Japanese Government to the "strengthening of the Anti-Comintern Pact". As a piece of speculation I would put it somewhere toward the end of March, when there began a series of conferences of the "inner cabinet" of five ministers, which has not entirely ceased, and much visiting back and forth of important personages. I began at that time to say to certain Japanese who were well disposed and who also had personal or other associations with those who were actually in process of deciding Japanese policy, that it would be well for Japan to ponder the risks to her relations with the United States if she were to enter into a general alliance with Germany and Italy. I referred to the swing in American thought away from

²¹ See British Cmd. 6106, Misc. No. 9 (1939), pp. 36-37; Prime Minister Chamberlain on March 31 made a statement in the House of Commons, and an Anglo-Polish communiqué was issued April 6.

isolationism and to the opinion being expressed with increasing frequency by Americans prominent in various walks of life that, if a general war were to occur in Europe, it would be only a question of time before the United States became involved. I pointed out that, with the entry of the United States into the hostilities on the side of Great Britain and France, it would be futile to expect that the relations of peace between the United States and Japan could be maintained if Japan were aligned with Germany and Italy. I reduced the question to its simplest elements and did not attempt to elaborate. Within a few days I had gratifying responses to the effect that I had cause no longer for concern lest Japan form an alliance with Germany and Italy. The most authoritative response came unsolicited from the Minister of the Navy.

On April 18 Admiral Yonai was host at a dinner for the officers of the U. S. S. *Astoria*, which I and several members of my staff also attended. During the dinner he said to the Counselor of the Embassy, who sat next to Admiral Yonai, that he had a communication to make to me but that, as his knowledge of English was limited, he would make it to Mr. Dooman³² in Japanese and would ask the latter to repeat it to me in English. The following is the substance of Admiral Yonai's reference to Japanese attitude toward the situation in Europe:

He understood that the American Ambassador was greatly concerned lest Japan become involved in the crisis in Europe. A decision had just been taken by the Cabinet which removed cause for any such concern: "Japanese policy has been decided". There is an element which advocates the setting up of fascism in Japan, but that element has been suppressed. The center of Japanese thought is the Emperor, and it is inconceivable that there could be established in Japan any form of government, whether democratic or authoritarian, which would prejudice the position of the Emperor. Japan, therefore, could not join either the democratic or the fascist bloc, but it would cooperate with both.

When Admiral Yonai's statement was repeated to me, I expressed to him my gratification over his disclosure to me of the trend of official Japanese thought. Admiral Yonai smiled broadly and remarked that he had been "very busy" over this question and was glad that it had been decided. This episode gave me great satisfaction for two reasons: the indication of policy coming from the Minister of the Navy, one of the two most influential members of the Cabinet (the other being, of course, the Minister of War), was of the most authoritative character, and I had evidence that my contacts had access to the few people who really count today in this country.

As reported in my 215, May 5, 6 p. m., it appears likely that, subsequently to the decision which was taken by the Cabinet as reported to

³² Eugene H. Dooman, Counselor of Embassy.

me by Admiral Yonai, renewed pressure by Germany and Italy was brought to bear on Japan, including, according to information coming to the French Ambassador, a threat to denounce the Anti-Comintern Pact unless a commitment, given without authority from his Government by the Japanese Ambassador at Berlin, to enter into an alliance were implemented. There was also renewed pressure on the Government from ultra-nationalistic elements who, while advocating a return to an absolute monarchical government tribal in its primitiveness, find congenial German and Italian policies. Most observers now believe that there has evolved out of the constant series of cabinet conferences a decision which, although containing elements of a definitive character, is sufficiently elastic to permit Japan to trim its sails to any wind which may hereafter prevail—that it is in essence a compromise.

Having weighed such evidence as is available, I lean strongly to the belief that Japan has refused to enter into an alliance with Germany and Italy. Quite apart from what is told us by Admiral Yonai and other Japanese, there is the report arriving today from Milan that the Foreign Ministers of Germany and Italy have agreed to proceed to the conclusion of an alliance. This report, following so closely on the calls of the German and Italian Ambassadors in Tokyo on the Japanese Foreign Minister on May 4, raises the thought that, had the communication made by Mr. Arita to General Ott and Mr. Auriti been responsive to the proposal for an alliance, the logical time and occasion for announcing the adherence of Japan to the alliance would have been yesterday at Milan. The Japanese Government cannot afford, however, to leave the matter with a negative reply. Not alone is there to be considered the advantages which Japan derives from the turmoil which Germany and Italy maintain in Europe, but the disappointment of chauvinistic elements at home over Japan's failure to place both feet firmly in the fascist camp will have to be alleviated. I am, therefore, prepared to place credit in reports that an agreement is being considered, or has even been formulated, "to strengthen the Anti-Comintern Pact." Japan's position, as we see it, is to avoid the making of commitments which would automatically place her on the side of Germany and Italy by there arising a situation (in Europe) beyond her power to prevent or control; and, in order to avoid alienating her friends, to give new expression to the special relations which in fact exist between Japan and Germany and Italy. It will be Japan's plan, as we see it, to keep open a way into either camp and to watch developments—especially the progress of British efforts to bring the Soviet Union into the anti-aggression front.

Respectfully yours,

JOSEPH C. GREW

740.00/1371 : Telegram

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

WASHINGTON, May 9, 1939—2 p. m.

120. A telegram of May 8 from the American Embassy at Berlin ³³ reads in part as follows:

“German sources indicate that the proclamation of the German-Italian military alliance as well as the reported conversations with Russia are maneuvers intended to frighten the Western Powers and to influence Japan to join Italy and Germany in a military alliance.”

HULL

762.94/342 : Telegram

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

TOKYO, May 10, 1939—11 a. m.

[Received May 10—2:36 a. m.]

216. Our 215, May 5, 6 p. m.

1. The Minister for Foreign Affairs, who dined at the Embassy last night, stated to me definitely and categorically that Japan would not enter into a general alliance with Germany and Italy. This, however, was said in casual conversation and should not be taken as an official commitment.

2. A thoroughly reliable Japanese informant advised us yesterday to “stand by” for a Cabinet crisis. He stated that yesterday’s conference of the inner Cabinet was a stormy affair and that Arita became so angry that he left the meeting.

3. From other sources we gather that the ultra nationalistic elements referred to in our 205, April 27, 5 p. m., paragraph number 2, are bitterly disappointed over the decision not to conclude the proposed alliance and are wholly dissatisfied with the sop which is to be thrown to them (as well as to Germany and Italy) in the form of “strengthening of the Anti-Comintern Pact”; that the position of the Prime Minister is rapidly becoming untenable; and that Marquis Kido ³⁴ is being talked of as his successor.

GREW

³³ Not printed.³⁴ Japanese Minister of Home Affairs.

762.94/385

*Memorandum by the Adviser on Political Relations (Hornbeck)*⁸⁵

[WASHINGTON,] May 11, 1939.

Great importance—undue importance, I think—appears to be attached in various quarters to the question of the consummation or non-consummation of a general defensive and offensive alliance between on the one hand Germany and Italy and on the other hand Japan. Solicitude is felt—undue solicitude, I think—lest action by the United States in relations with Japan might strongly influence and possibly determine Japan's decision in that connection.

Granting that some conspicuously and substantially hostile act on the part of the United States might drive Japan, under the urge of certain shallow-minded and chauvinistically constituted of her military people, to take the plunge and make a hard-and-fast and comprehensive commitment to Germany and Italy, I do not (1) believe that the taking of any moderate steps toward bringing pressure upon Japan such as have been and are under consideration in this country would have such an effect, and I do not (2) believe that, in any event, the world situation would be made substantially worse if the Japanese were to take such a step.

To Germany and Italy it would be advantageous were they able to announce that Japan had entered into such an alliance with them. The advantage would be largely psychological. Those two powers have nothing to lose by the consummation of such an alliance. The accruing psychological advantage would be of value to them. Therefore they, especially Germany, are pressing Japan to take that step.

To Japan, however, no special advantage would accrue from the announcement of such an alliance. The psychological effect upon the Chinese would be either negative or adverse to Japan's interests. The Chinese already consider that Germany and Italy have betrayed them, and they know that Germany and Italy are already helping Japan; the Chinese would not consider that Japan was materially strengthened by the consummation of the alliance, and they would be all the more convinced that the only chance which they had of retaining their freedom lies along the line of continuing to resist Japan. The psychological effect upon the rest of the world would be adverse to Japanese interests. The Japanese have been told expressly that Great Britain and France and the United States would look with great disfavor and apprehension upon the entry by Japan into such an alliance; and they know that such a step on their part would add to their present unpopularity with other "democratic" countries. The thing on which the Japanese are most intent now,

⁸⁵ Notation by the Secretary of State, May 15: "Thanks. OH".

second to their intentness upon the objective of defeating China, is avoidance of bringing to bear upon themselves increased disfavor or a positively hostile attitude on the part of the United States. They will not lightly antagonize the United States simply for the purpose of making themselves more popular with Germany and Italy.

Germany and Italy are not in position to render Japan much more of service than they are already rendering. They might sell Japan more goods than at present, but not on terms conspicuously to Japan's advantage. In the event of a war in Europe they would probably have to curtail rather than expand the volume of their exports to Japan, especially exports of arms and ammunition. Also, in the event of war, they would not be able to render Japan any assistance in the Far East, and it is now and it would be then in the Far East that Japan's need of military assistance lies and would lie. There is not much that Germany and Italy can pay or plausibly promise to pay Japan as the price of entry by Japan into an alliance with them.

Moreover, the Japanese know as well as do we that, if war comes in Europe, the chances in the long run are against Germany and Italy. They realize as do we that over the long swing Great Britain and France have much more of the world's resources to draw upon and much greater chance of reenforcement than have Germany and Italy. They know that were Germany and Italy by chance to win there would be nothing in Europe with which Japan might be rewarded for assistance which Japan might have given. The Japanese have no intention either of being on the possibly losing side or of giving assistance to any side without prospect of definite and substantial profit to and for themselves. They know that if, having entered into such an alliance, they were called upon to give military assistance in Europe they would be placed in an embarrassing position; that they would not wish thus to perform; and that if they refused to perform they would be further branded than now as treaty breakers.

For the Japanese, the logical thing to do is to regulate their relations with Germany and Italy on the basis of constant bargaining, with short-term accounts, constant deliveries back and forth, and frequent balancing of separate accounts. There are a number of steps which the Japanese have in contemplation in the Far East some of which they might take at any time but each and all of which they might take with greater assurance were a war to begin in Europe. In the light of that fact, there is reason for the Japanese to desire that war break out in Europe, and for that reason the Japanese might enter into an alliance with Germany and Italy for the purpose of encouraging Germany and Italy to go to war. It is conceivable that the Japanese might consider that the fact of a war having broken in Europe would be of sufficient advantage to them to outweigh the

disadvantages to them which would flow from their having entered into an alliance. It therefore cannot be assumed with absolute confidence that the Japanese will be guided by the dictates of logic as regards the long swing. It therefore must be admitted that there is a possibility of Japan's entering into an alliance. But, within that line of reasoning, Japan's decision would have been brought about by considerations inherent in the situation in Europe and the situation in the Far East, and not by an impulsion—in the form of a reaction in Japan to a pressure threatened by the United States—from the United States.

Suppose, however, for purposes of discussion, that Japan were, in consequence of no matter what considerations, to enter into the alliance. What would be the general and the particular effects?

The initial psychological effects in Europe would be to the advantage of Germany and Italy. This might possibly increase the likelihood of intensified German aggression. But, in so far as military potentialities are concerned, it would not substantially alter the now existing situation. It would not add to Germany's and Italy's military strength or economic resources. The Germans and the Italians know that Japan has her hands full in the Far East, that she has nothing which she can send them, and that, if she had, there is a long gap between promises and performance in such a connection. The only thing which Japan could do which would be to the advantage of Germany and Italy would be to create a diversion which might render Russia ineffective in Europe. But, Germany and Italy have proceeded and are proceeding on the assumption and expectation that Russia will in the event of a war in Europe stand aloof. The mere fact of having Japan as an ally might give them some additional assurance in that connection but it would not add to Germany's capacity to deal with Great Britain and France. Japan's entry into the alliance would not decrease Great Britain's and France's strength in Europe, for the simple reason that the British and the French have given up all thought of being able, in the event of war, to act in the Far East, and, if attacked by Japan in the Far East, will not attempt to defend their positions there.

With or without being in an alliance with Germany and Italy, Japan will, in the event of a war in Europe, proceed in the Far East in accordance with (a) her capacity and (b) her estimate of what is directly to her own interest and advantage. The fact of being in an alliance would not increase Japan's capacity in that connection or alter her estimates. It would be to her advantage in one way only: it would give her the assurance that Great Britain and France, already preoccupied in Europe, would continue for some time to be fully occupied there and would not be able for some time—as might be the

case were a condition of peace brought about and assured in Europe—to turn their attention to the safeguarding of their interests in the Far East. But, against that advantage, the Japanese would have the disadvantage of increased solicitude on the part of the United States with regard to developments in the Far East and an increased possibility of friction and serious difficulty between the United States and Japan.

There is ample warrant for the view that the Japanese will continue to keep alive the subject of possible entry by them into the alliance, but that they will refrain from making a commitment either “yes” or “no” unless a war in Europe breaks out and until they shall have observed for some time the course of the military operations.

It therefore is believed that, in giving consideration to problems of relations between the United States and Japan, we should not be unduly influenced by the thought of possible influence of our acts upon Japan’s relations with Germany and Italy or unduly apprehensive lest steps which we might take so turn the scales as to lead to Japan’s entering the alliance. If by any chance Japan should enter the alliance, the fact of her having done so would probably not over a several years’ swing substantially alter the effective course of world events.

STANLEY K. HORNBECK

762.94/364

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] May 15, 1939.

Reference, statements marked in news dispatch from Mr. Fleisher, Tokyo, May 14, 1939, of which a copy is here attached.³⁶

Mr. Fleisher reports:

“The belief is held in Japan that the United States would almost certainly enter such a war [a war which, beginning in Europe, would involve the totalitarian states and any states allied to them]³⁷ on the side of the democracies and that Japan would find herself at war with America against her will. The navy, in particular, is strongly opposed to such a policy. Those who share the navy’s view point out that Japan has plenty to do in East Asia . . .³⁸ and had better not look farther afield.

“On the other hand, advocates of a military alliance with Germany and Italy point out . . . Seito Nakano . . ., an open advocate of the proposed alliance, argues in a current magazine article that the combined strength of Germany, Italy and Japan would ‘equally balance’ that of Britain, France and the Soviet Union and thus contribute

³⁶ *New York Herald Tribune*, May 15, 1939, p. 1.

³⁷ Brackets appear in the original memorandum.

³⁸ Omissions indicated in the original memorandum.

to peace in Europe. He believes the United States 'too cautious' to become involved in a European conflict and says America would remain neutral."

Assuming that this indication of the lines on which Japanese opinion is divided is an accurate index, it would seem that anything which the American Government might do, in word or in act, which would tend to amplify the impression in Japan that, in the event of a war, the United States might become associated with the democracies, and which would tend to diminish the impression that the United States would remain neutral, would lend support to the opponents in Japan of entry by Japan into the proposed alliance.

STANLEY K. HORNBECK

741.61/610: Telegram

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

TOKYO, May 16, 1939—7 p. m.
[Received May 16—11:10 a. m.]

227. My British and French colleagues have recently told the Foreign Minister under instructions that in the present negotiations with Soviet Russia³⁹ their respective Governments have made no commitments applying to the Far East but that if Japan now contracts a general alliance with the totalitarian states their Governments may be obliged to reconsider their position in this respect.

GREW

762.94/360: Telegram

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

PARIS, May 23, 1939—5 p. m.
[Received May 23—4:32 p. m.]

994. The Chief of the Far Eastern Division at the Foreign Office read to us this morning a telegram received on May 21 from the French Ambassador at Tokyo reporting that the Japanese Government had definitely decided not to enter into a military alliance with the Axis Powers. The Ambassador reported that on either May 11 or 12 Hiranuma and Arita, incensed at the attitude of the Extremists, had tendered their resignation[s] to the Emperor. The Emperor had refused the resignations and had requested them to remain in office and to continue their policy.

³⁹ For correspondence on British and French negotiations with the Soviet Union, see vol. I, section entitled "Anglo-French-Soviet Negotiations . . ."

On May 15 the Ambassador under instructions from Paris had called on the Vice Minister for Foreign Affairs and had referred to reports published in Japan that the Franco-British negotiations with Soviet Russia envisaged action in the East. The Ambassador denied these reports, stating that the arrangements under negotiation with Russia contemplated action only in the west. He added that the reason for this was that it was inconceivable to the French Government that it could ever go to war against Japan. At the same time he took occasion to refer to reports that Japan was considering a military alliance with Germany and Italy and stated that of course if such an allegiance [*alliance?*] should be concluded this would mean that Japan might go to war against France and therefore the French Government would be obliged to reconsider its views regarding the Soviet arrangement. The Ambassador reported that the Japanese Foreign Office had given publicity to only the first part of his statement of May 15 which had produced an excellent effect. The second part of his statement had not been given publicity but had undoubtedly influenced the Japanese Government in its decision not to enter the military alliance. The Ambassador concluded by reporting his conviction that for the time being at least there would be no question of a military alliance or of a Cabinet crisis.

Reference my 976, May 20, 2 p. m.⁴⁰ Chauvel said that yesterday the Foreign Office had instructed the French Ambassador in Tokyo to send a brief note to the Japanese Government referring to the International Settlement of Shanghai.

The note would point out that the French Government because of the fact that it was represented by the French Consul on the governing body of the International Settlement was interested in the status of the International Settlement and of course could not disinterest itself in any proposed changes affecting the Settlement. The note would then invite attention to the recent American *aide-mémoire*⁴¹ and state that the French Government associated itself with the point of view expressed therein.

Reference my 874, May 3, 5 p. m.,⁴² last paragraph. Chauvel said that the French Government had been informed by the British Government that the latter considered it inopportune at present to go forward with the idea of embargoing iron ore exports from British and French Far Eastern possessions to Japan.

The British Government had stated that perhaps at some later time this proposal could be considered in connection with some comprehensive plan to bring pressure to bear upon Japan if such a plan

⁴⁰ Vol. iv, p. 56.

⁴¹ Dated May 17, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 842.

⁴² *Post*, p. 534.

should seem advisable. Chauvel said that the French Government therefore had decided to remove the embargo on the export of iron ore from French Indo-China to Japan. This would not be done immediately because the French Government was using the embargo as a bargaining point in an effort to conclude the negotiations with Japan for a commercial agreement.

Referring to the requests made of the French Government in the *aide-mémoire* presented by the Chinese Ambassador on April 13 (see my 766, April 18, 2 p. m.⁴³), Chauvel stated the following: (1) a group of French banks is prepared to extend a loan to support the Chinese currency subject to receiving a guarantee from the French Treasury. The matter is now in Reynaud's⁴⁴ hands. (Reynaud told me last night that the French Government had decided to guarantee this loan to the amount of 200,000,000 francs); (2) the competent French technical services have reported favorably a proposal to extend export credit guarantees to cover the purchase of railway equipment in particular for the construction of a railway between Yunnan and Chungking (the amount involved is about 300,000,000 francs); (3) the French Government has gone further than requested by the Chinese Government in that it has removed entirely the transit duties on supplies of material destined for the Chinese Government passing through Indo-China.

BULLITT

740.00/1598 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, May 26, 1939—8 p. m.
[Received May 26—11:35 a. m.]

245. Our 234, May 18, 5 p. m.⁴⁵

1. The Ambassador immediately before his departure and I more recently have had conversations with leading Japanese, including members of the Cabinet, which give me the definite impression that, in view of the way in which events in Europe are shaping, there is taking place here an anxious search for a position which would afford Japan security.

2. In a conversation on May 16 with the Ambassador and me, one well informed person stated that he and those who think as he does, who had sufficient influence to defeat the proposal of an alliance with Germany and Italy, are convinced that the only safe course for Japan to follow is to restore good relations with the democratic states espe-

⁴³ *Post*, p. 665.

⁴⁴ Paul Reynaud, French Minister of Finance.

⁴⁵ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 1.

cially the United States and he made a strong plea for some indication by the United States that restoration of good relations with Japan was desired, a step which would greatly support those who were opposing any new anti-Comintern commitment. The Ambassador replied that he could not recommend to his Government that it give such indication unless Japan could first offer evidence of intention to make peace with China on terms which could be expected to meet the Chinese terms and command the approval of the American Government. The informant said that an indication of Japan's peace terms might better come from the Minister for Foreign Affairs; that he would report the conversation to Arita; and that he would urge Arita to defer any new anti-Comintern commitment until the Ambassador had time to communicate with the Department.

3. When I talked with Arita on the 17th I found that he was familiar with the conversation of the preceding day. He was, however, excited over the Anglo-Soviet negotiations and was in no mood to talk of anything else. In view of this conversation and of the conversation which the Ambassador had with the Foreign Minister on the following day, as reported in our telegram under reference, the Ambassador felt as I then did that the views expressed by the informant referred to in paragraph 2 should be discounted.

4. However, in subsequent conversation with the high official⁴⁶ mentioned in my strictly confidential 242, May 23, 11 p. m.,⁴⁷ and with one of his personal advisers, I was told that Japan did not want to tie up with Germany and Italy as there are in those countries under surface currents which gravely prejudice confidence in any political arrangement which Japan might make with them. The thought was subtly conveyed that if war broke out in Europe there would be little security for Japan in seeking to maintain neutrality and that Japan would greatly prefer to be associated on terms of close friendship with the democratic states than with Germany and Italy through an alliance. I might add that there was expressed doubt whether the latter countries could defeat the democratic states.

5. There is in these and other authenticated evidence that the President's message to Germany and Italy⁴⁸ and other signs of probability that the United States would not be indifferent to a war in Europe have awakened some Japanese to the risk of involvement with the United States figuratively by way of Europe if not directly across the Pacific. The high official referred to in paragraph 4 said to me that Japan would be prepared eventually and under certain condi-

⁴⁶ Baron Hiranuma, the Prime Minister.

⁴⁷ *Post*, p. 171.

⁴⁸ See President Roosevelt's telegram of April 14 to Chancellor Hitler, vol. 1, section entitled "President Roosevelt's Messages of April 14 to Germany and Italy . . ."

tions to moderate its peace terms to China; but this willingness if it exists springs not from any moral regeneration but from realization that Japan's security can be safeguarded so long as war threatens in Europe only by liquidating the conflict with China. It is impossible at this time to determine whether the more rational views herein reported are those which predominate within the Japanese Government but the standing of those who utter them entitles them to much weight.

DOOMAN

741.61/655 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, May 31, 1939—6 p. m.
[Received May 31—9:46 a. m.]

250. Our 247, May 29, 1 p. m.⁴⁹

1. In conversation today with the Vice Minister for Foreign Affairs,⁵⁰ I asked informally and as on my own initiative whether the press reports outlined in our telegram under reference were correct. I said that I based my inquiry on an assumption that my Government, having before it the message from the Prime Minister communicated through Mr. Grew,⁵¹ would be interested in information bearing on the attitude of Japan toward the Anglo-Soviet negotiations.

2. The Vice Minister replied that the press report was not correct, for the reason that no formal representations had been made by the Japanese Ambassadors at Moscow and London. He added, however, that the Minister for Foreign Affairs had on several occasions made it clear to the British Ambassador in Tokyo that Japan could not be indifferent to the negotiations, which were being closely watched, and might perhaps be obliged to review its position vis-à-vis Europe; that the Japanese Ambassadors at Moscow and London had been informed of the conversations in Tokyo; and that these Ambassadors had talked to Molotov⁵² and Halifax respectively along the above lines.

3. Sawada added that any agreement which strengthened the position in Europe of the Soviet Union would automatically strengthen its position in the Far East; that the conclusion of the Franco-Soviet Military Pact in 1935⁵³ had been immediately reflected in a more ag-

⁴⁹ Not printed; it reported alleged representations by Japan regarding Anglo-Soviet negotiations (741.61/650).

⁵⁰ Renzo Sawada.

⁵¹ See telegram No. 234, May 18, 5 p. m., from the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 1.

⁵² V. M. Molotov, President of the Soviet Council of People's Commissars (Premier).

⁵³ Signed at Paris, May 2, 1935, League of Nations Treaty Series, vol. CLXVII, p. 395.

gressive attitude on the part of the Soviet Union against Japan; and that therefore the successful conclusion of the present Anglo-Soviet negotiations would be a matter of concern to Japan.

4. I made no comment, but emphasized that my inquiry was informal.

Cipher text by air mail to Shanghai for repetition to Ambassador Johnson and Peiping.

DOOMAN

740.00/1812

The Chargé in Japan (Dooman) to the Secretary of State

[Extracts]

No. 3936

TOKYO, June 7, 1939.

[Received June 27.]

SIR: I had the honor in my telegram no. 245, May 26, 8 p. m., to present an analysis of certain trends in Japanese thought with regard to foreign policy in relation to the situation now developing in Europe. . . .

I wish to make it clear, before setting forth certain conclusions which I draw from these conversations, that I do not put forward the views of those Japanese—even though they be persons of great importance and influence—who harbor hopes of restoring good relations with the democratic nations, as being necessarily the views of the Japanese Government. These are, however, the views of a powerful element in the Government: they may prevail or they may not, but they cannot be ignored.

Any observer who is in any way sensitive to things not seen would, if he were in Tokyo today, become aware of the groping for security against the gathering storm in Europe. I should perhaps add parenthetically that the European situation today has assumed primary proportions, and that it would be visionary to suppose that the present confusion concerning the course which Japan should follow is due to despondence over the apparently ineffectual hostilities in China. The Army and other elements which have thus far controlled China policy have assumed that the Far Eastern conflict could be permanently and completely insulated against repercussions from situations elsewhere, as they did not look to American and other occidental armed intervention in that conflict. Although reference has been made in the Embassy's telegrams to the effects of the President's message to Chancellor Hitler, I do not believe that I could, by further reference to that message, exaggerate the impulse which it had to-

ward persuading the Japanese Government to realize that there may be grave danger of involvement with the United States "not directly across the Pacific but by way of Europe", as one Japanese put it to me. I should, however, place that observation in proper perspective. A threat by the United States to eject Japan from China would, I am confident, be resisted. But if war were to break out in Europe with the United States participating on the side of Great Britain and France, the outcome in the view of those Japanese who think along rational lines would admit of no doubt. With Germany and Italy crushed, the prospect of confronting the victors would not be a palatable one to Japan.

There are, therefore, in the situation which seems to be developing but two courses for Japan to follow—either to go over unreservedly to the totalitarian side, or to restore good relations with those nations which, in the opinion of one element of the Japanese Government, would be the victors. True, in rejecting the proposal to join Germany and Italy in an alliance, Japan provisionally chose a third course—neutrality. I am inclined, however, to doubt whether there are many Japanese who confidently believe that neutrality would afford security. The arguments of those who believe in the superior power of Germany and Italy are obvious and simple: Japan has only to associate herself with those countries and wait for the European war to pick China like a ripe plum. But, for those Japanese who have other views concerning the power of Germany and Italy, there is but one way by which Japan's security can be safeguarded, and that is to bring the conflict with China to an end on some reasonable terms. Here again I wish to make it clear that the desire for a settlement of the conflict does not derive from moral regeneration but from realization of stark facts.

In concluding this despatch, which is already unconscionably long, I wish briefly to allude to the discrepancy between the attitude of the Prime Minister as indicated in his conversation with me and that of the Minister for Foreign Affairs, whose preoccupation over the Anglo-Soviet negotiations has already been mentioned. It is obvious that the desire of the Prime Minister for American collaboration to bring about peace in Europe (and in the Far East) cannot be reconciled with the readiness, which is almost an eagerness, on the part of the Foreign Minister to meet a fancied threat from Great Britain. These two points of view reflect conflicting policies, and which of these policies will prevail may perhaps be decided by events of the next few days.

Respectfully yours,

EUGENE H. DOOMAN

740.00/1683 : Telegram

*The Chargé in Japan (Dooman) to the Secretary of State*TOKYO, June 8, 1939—7 p. m.
[Received June 8—8:05 a. m.]

265. Our 245, May 26, 8 p. m.

1. The Polish Ambassador gave me in strict confidence an account of his conversation yesterday with the Minister for Foreign Affairs as follows:

(a) He told the Minister for Foreign Affairs that he had heard that there had been renewed pressure on Japan to adhere to the German-Italian alliance and he inquired whether there had been any change in the negative decision taken in April by the Japanese Government. The Foreign Minister replied that there had been no change but that Japan's position would have to be reexamined upon the conclusion of the Anglo-Soviet negotiations concerning an anti-aggression pact.

(b) The Ambassador then asked for clarification of the Japanese attitude vis-à-vis the difficulties between Poland and Germany. The Foreign Minister said that his reply to that question would be found in his presentation of the four cardinal points [of] Japan's attitude toward European problems. The first point is that Japan maintains friendly relations with both Germany and Poland and therefore hopes that they will peacefully resolve their present difficulties; Japan is prepared, without commitment as to the merits of the causes of their dispute, to lend its good offices toward restoring good relations between the two countries. The second is that without prejudice to Japan's intention to avoid involvement in the affairs of Europe, "Her relations with Germany extend beyond the framework of the Anti-Comintern Pact". The third is that the results of the Anglo-Soviet negotiations will determine to a large extent whether or not Japan can avoid involvement in Europe. The fourth is the possibility of Japan and the United States collaborating to bring about a *détente* in Europe and thus creating opportunity in Europe for laying down a basis of durable peace; the views of the American Government in this request are being explored.

(c) In the general discussion which followed, the Foreign Minister again emphasized Japan's concern over the Anglo-Soviet negotiations, pointing out that Japan cannot be indifferent to any arrangement which would strengthen the position in the Far East of the Soviet Union. The Ambassador in defense of the British desire to bring the Soviet Union within the anti-aggression front in Europe referred to an innovation of action calculated to prevent the Soviet Union from falling into the arms of Germany. The Foreign Minister ridiculed that possibility whereupon the Ambassador made the rejoinder that his Government has indisputable evidence from both German and Soviet sources that *rapprochement* between those two countries is now an active question.

2. The Ambassador gained the very definite impression that the so-called decision with regard to Japanese policy recently referred to by the press is not a definitive decision but merely a conclusion reached by the Cabinet to await the result of the Anglo-Soviet negotiations. He believes that the hardening of American sentiment against Germany is largely responsible for the present confusion of the Japanese Government with regard to its European policy, his analysis of local trends following very closely that presented in our telegram under reference.

DOOMAN

761.9315 Manchuria/131 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, July 26, 1939—8 p. m.

[Received July 26—2:30 p. m.]

364. 1. I have obtained from confidential Japanese sources the following information with regard to the hostilities on the border between Manchuria and Outer Mongolia.⁵⁴

(a) The genesis of the hostilities is the restrictive action taken by the Japanese military against nomad Mongolian traders who have long been accustomed to bring their products for sale in certain markets in now disputed territory. The Japanese military authorities forced down the prices of these products, prevented the transfer of funds out of Inner Mongolia and finally closed down several of the markets. On May 8 a large body of Mongolian nomads with several thousand head of sheep and cattle crossed the Halha River in order to proceed to one of the closed markets in territory claimed by the Japanese to be "Manchukuo" and by the Mongolians to be a part of Outer Mongolia. The nomads were protected by a substantial force of Soviet Russian troops and when intercepted by Japanese troops fighting broke out between the Japanese and Soviet forces. Reinforcements were brought up on both sides, the Japanese engaged constituting the greater part of two divisions. I was shown photographs of sixty captured Soviet tanks and a heap of airplane debris. The Japanese admitted on their side to have suffered casualties amounting to 35% of their total effectives since the fighting began and a loss of 30 airplanes during the last 3 weeks.

(b) I was told that the Japanese have obtained conclusive evidence of instructions from Moscow forbidding advance beyond the limited strip of land claimed to be Mongolian territory on east bank of the Halha River. The Japanese assert also that they have given definite instructions to the Kwantung army not to proceed across the above-mentioned river.

If the information is correct that both the Japanese and Soviet Governments are prepared to restrain their forces it does not seem

⁵⁴ Previous reports received by the Department regarding this fighting are not printed. They were lacking in detailed, authentic information.

likely that the situation along the border will become more serious than it is. However, the military in Tokyo are showing signs of restlessness over the deadlock along the Mongolian border and refer to the Soviet-Japanese difficulties regarding concessions in North Saghalien in increasingly heated terms. I have no justification whatever for predicting that difficulties may be expected in the latter area but the increasing acerbity of the Soviet-Japanese negotiations in that regard is worthy of notice.

3. [2.] Military Attaché⁵⁵ requests that copy be furnished the War Department.

Repeated to Moscow and to Peiping for Chungking.

DOOMAN

762.94/400: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 5, 1939—10 p. m.

[Received August 5—2 p. m.]

390. Our 388, August 4, 7 p. m.⁵⁶

1. I heard today from two reliable sources that the army supported by a joint recommendation by the Japanese Ambassadors at Berlin and Rome are again vigorously pressing the Government for an alliance with Germany and Italy. My informants said that the Government is resolutely opposing the proposal and has staked its existence on the issue and that if the Government should fall the next Prime Minister would probably be General Araki⁵⁷ although one informant made the statement that a strong effort would be made by his friends to bring forward General Ugaki.⁵⁸

2. The Minister of the Navy referring to reports of this character during the course of a conversation which I had with him upon the subject said, "The demagogues are getting busy again with their propaganda." He expressed confidence that this new effort of those he described as desperadoes would be fought off.

3. The city is today alive with rumors—that an attempt was made to assassinate Ikeda, former Minister of Finance, and a leading liberal; that the King of England has addressed a message to the Emperor recommending moderation of Japan's attitude toward Great Britain; that military measures against the Soviet Union are to be taken in Saghalien and so on. Whatever element of truth that might be in them has undoubtedly been greatly exaggerated but the sudden currency of such sensational rumors is significant.

DOOMAN

⁵⁵ Maj. Harry I. T. Creswell.

⁵⁶ Not printed.

⁵⁷ Former Minister of War.

⁵⁸ Former Minister for Foreign Affairs.

762.94/402: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, August 8, 1939—6 p. m.

[Received August 8—9:48 a. m.]

394. Our 390, August 5, 10 p. m.

1. From conversations which I have had during the past few days I believe that the proposal for conclusion by Japan of a military alliance with Germany and Italy is being put forward again with such vigor that a major political crisis is in process of formation. The British Ambassador tells me that he is of the same opinion. Any estimate at this time as to the outcome of the present discussions within the Government would be purely speculative. Some of my Japanese informants believe that the Cabinet will fall while others take a more optimistic view. The best information which I have is that the position of the Cabinet has deteriorated substantially since the end of last week and that the Cabinet is not entirely confident that it will be able to plan its opposition to the treaty proposal.

2. The basic considerations involved in the present discussion appear to be substantially those set forth in the concluding pages of my despatch 3936 June 7, but the circumstances which have resulted in the bringing forward again accounts of the alliance project at this particular moment are not entirely clear. Certainly the narrowing margin of the differences between the British and French Governments on the one hand and the Soviet Government on the other in the way of concluding a military agreement between those countries has brought about in this country a corresponding increase in support for the organized minority favoring an alliance with Germany and Italy. However, I understand that the view prevails in Japanese military circles that the possibilities of a war in Europe during the present year are decreasing. I am therefore inclined to believe that the principal consideration leading to the bringing forward of this proposal again at this particular juncture should be attributed to the diminishing prospects of the present Anglo-Japanese conversations bringing about an agreement which would be acceptable to the Japanese. Accordingly whether the discussions in the Cabinet are designed primarily as a minatory gesture to emphasize to Great Britain the consequences if the British do not yield to Japanese demands or whether preparations are now being proposed against the state of uncertainty which is anticipated to prevail in the event of the breakdown of the Anglo-Japanese conversations it is impossible to tell. The uncertainty of future relations with the United States is undoubtedly another factor.

DOOMAN

762.94/404: Telegram

The Ambassador in Italy (Phillips) to the Secretary of State

ROME, August 10, 1939—7 p. m.

[Received August 10—6:40 p. m.]

306. My No. 303, August 9, 7 p. m.⁵⁹ Yesterday afternoon at 5 o'clock Shiratori, Japanese Ambassador to Italy, gave an interview to the Rome Associated Press correspondent in which he asserted that a defensive military alliance between Japan, Germany and Italy had been fully agreed upon in principle although certain details remained to be worked out. He stated that such an alliance had been decided in Tokyo between the three powers but declined to predict when a final agreement would be reached or when the alliance would be signed. On Tuesday August 8 Shiratori gave an interview along practically similar lines to the Rome representative of the United Press.

My conversation with Count Ciano reported in telegram No. 303 took place at 6 o'clock yesterday afternoon when as will be recalled I was assured that the Italian Government was not contemplating any steps toward bringing Japan into the German-Italian alliance. Ciano saw Shiratori at 7 o'clock that same evening. This afternoon the Soviet Chargé d'Affaires saw Ciano and brought up Shiratori's United Press interview of August 8th. Ciano categorically denied the statements attributed to Shiratori and asserted that Italy was taking no steps toward including Japan in its pact with Germany and that Shiratori had made no new proposals to him on the subject. He added that he believed that the Tokyo Government itself was divided on the advisability of concluding a hard and fast pact with the Axis Powers and that the Italian Ambassador in Tokyo had advised him to that effect. He stated that if Russia allied itself with England and France, the situation might be different for all powers concerned and that in the case of a war between the Western democracies and the Axis a Japanese-German-Italian alliance might prove "automatic". At the moment however nothing had been agreed upon and he repeated Italy was taking no steps in the matter. The Soviet Chargé received the impression that Shiratori's activities are embarrassing to Ciano.

Ciano leaves for Salzburg at 7:10 this evening and expects to return at the beginning of next week.

PHILLIPS

⁵⁹ Not printed.

761.9315 Manchuria/139 : Telegram

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

Moscow, August 10, 1939—8 p. m.
[Received August 10—3: 55 p. m.]

437. Following from Military Attaché⁶⁰ for War Department:

It has been learned from no less than three reliable sources that there has been a considerable movement of military supplies and some troops to the Far East. It is believed that these troops are going to the trans-Baikal area and are probably being sent in connection with the recent border disturbances around Lake Buir.⁶¹ This movement has been going on for probably 6 weeks or 2 months. Reports of routes of train movements would appear to indicate that the majority of the troops being moved are coming from the Ural military district and probably from the southern and southeastern military districts of European Russia. It is not believed that any considerable number of troops have been moved from the military districts of the western frontier although the troops moved to the east would have formed a general reserve for the western forces in the event of Soviet participation in a major war in Europe. End section for War Department.

Potemkin⁶² yesterday admitted to me the continuation of fighting on the Manchurian-Mongolian border. There is up to the present no evidence to indicate that the Soviet Government desires to extend the sphere of conflict. Although in so far as can be ascertained no troops have been moved from the Soviet forces on the western frontier, nevertheless the transfer of troops from European Russia at the present time is significant.

STEINHARDT

162.94/411 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 12, 1939—1 p. m.
[Received August 12—6: 15 a. m.]

403. Our 400, August 11, 7 p. m.⁶³

1. The *Asahi* which is probably the best informed paper in this country states this morning that deliberation by the Cabinet of European policy (a locution for the proposed alliance with Germany and Italy) will be continued for a considerable period and that no decision can be expected for some time. It adds that the Prime Minister has consulted Prince Konoye and that the views of the two Cabinet officers are in complete agreement.

⁶⁰ Capt. Ivan D. Yeaton.

⁶¹ Known also as Bor Nor.

⁶² Soviet Vice Commissar for Foreign Affairs.

⁶³ Not printed.

2. I know that Prince Konoye is wholeheartedly opposed to forming the alliance.

Cipher texts by mail to Peiping and Chungking.

DOOMAN

761.6211/72 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 23, 1939—7 p. m.

[Received August 23—12:46 p. m.]

428. Our 427, August 23, 4 p. m. sent via Peiping⁶⁴ presents a general review of Japanese press reaction to the forthcoming German-Soviet non-aggression treaty.⁶⁵ The Japanese press has been profoundly shocked by the announcement; notwithstanding the obvious reluctance of the Japanese Government to enter into an alliance with Germany and its desire to retain a free hand in respect of purely European problems, the Anti-Comintern Pact has provided a framework within which there could be concerting of policies by Japan with Germany and Italy and has therefore received much lip service; and the present announcement has brought forth open denunciation of Germany for having in effect done away with the Anti-Comintern Pact and a thinly concealed feeling of betrayal of [by] Germany.

2. In Government circles as well as among the populace those who are usually well-informed and willing to talk to us are dazed and virtually incoherent. The predominant note which they sound is one of anger that Germany gave Japan no prior notice of the negotiations although Italy was fully consulted. In official Japanese circles it is admitted that the "situation has been completely reversed". The Polish Ambassador informed me that his Military Attaché called on the Vice-Minister of War and that the latter expressed himself in substantially those terms. The feeling of resentment toward Germany is, I gather, not unlike that of the British feeling against Soviet Russia.

3. At this time of confusion of thought among the Japanese themselves, no responsible prediction can be made of the decision which will ultimately have to be reached by the Japanese Government to meet the changed situation. The thoughts which are being most widely discussed are:

(a) As the new German-Soviet agreement would be inoperative in the event of aggression on the part of either power, it is conceivable that the Soviet Government might now join England and France in a

⁶⁴ Not printed.

⁶⁵ For correspondence regarding German-Soviet negotiations, see vol. I, section entitled "The Improvement of German-Soviet Relations Culminating in the Treaty of Nonaggression . . ."; for text of the agreement signed at Moscow, August 23, see Department of State, *Nazi-Soviet Relations, 1939-1941*, p. 76.

military agreement against aggressors. No final decision can therefore be reached until that point has been clarified;

(b) So long as Germany has seen fit to come to terms with Russia, Japan might consider taking up the Soviet offer of a non-aggression pact which has not been withdrawn since it was put forward in 1931. The difficulties such as the likely Soviet demand that Japan withdraw its troops from Manchuria in conformity with the Portsmouth Treaty⁶⁶ are serious but not necessarily incapable of being overcome.

(c) Even though an alliance with Germany would not be useful to Japan in a war against Russia, the greatly enhanced prestige of Germany and Italy would give Japan if allied to those powers substantial support for Japanese operations against British interests in Asia in the event of a war in Europe.

(d) Germany has definitely proven its untrustworthiness and Japan should therefore endeavor to restore friendly relations with the democratic powers.

4. The predominant feeling at this moment seems to be that Japan should completely wash its hands of both European camps. It is, however, a notable fact that those favoring restoration of friendly relations with the democratic powers are speaking in much more confident terms than the very definite minority who would still have Japan allied with Germany and Italy.

5. As of possible interest the Foreign Minister informed the Polish Ambassador this morning that although the Japanese Government has for some time been suspicious of the German-Soviet negotiations (please see last sentence, paragraph 1, of our 314, July 6, 5 p. m.⁶⁷) it had no knowledge until yesterday that the negotiations contemplated the conclusion of an anti-aggression pact. It was plain to the Ambassador that the Foreign Minister had no clear conception of the course which he would pursue.

Repeated to Peiping. Peiping please repeat to Chungking and Shanghai.

DOOMAN

761.6211/92 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 24, 1939—7 p. m.

[Received August 24—11:56 a. m.]

433. Our 430, August 24, 3 p. m.⁶⁷

1. Local developments yesterday evening and today combine to form a strong probability that the Cabinet at the meeting called for tomorrow will take decision to follow what is described as "a free and independent policy" with regard to the situation now unfolding in

⁶⁶Treaty of peace between Japan and Russia, signed at Portsmouth, N. H., August 23, 1905, *Foreign Relations*, 1905, p. 824.

⁶⁷Not printed.

Europe. The Prime Minister has been conferring individually with the leading members of his Cabinet and it has been given out that he will issue an important statement on August 26. It is also being made clear that the army and navy have agreed that Japanese commitments in Europe are to be avoided, and the afternoon papers again carry the report described in paragraph 2 of our telegram under reference. What may be an indication of the decision which may be taken by the Cabinet tomorrow is the disclosure through the press of a report from the Japanese Ambassador at Berlin to the effect that when the German Foreign Secretary⁶⁸ immediately prior to his departure to Moscow was asked by the Japanese Ambassador whether a strengthening of the Anti-Comintern Pact was still practicable he replied that circumstances unfortunately prevented development of relations with Japan.

2. My estimate of the position here at the moment is that the army has abandoned pressure for an alliance with Germany and Italy and that the Japanese Government while awaiting further developments in Europe will maintain a completely free position. If the attitude of the press and of individual Japanese is to be reflected in the final decision of the Japanese Government, I would have no hesitation in saying that the possibility of Japan associating itself with Germany and Italy against the democratic states has now disappeared.

Repeated to Peiping. Peiping please repeat to Chungking and Shanghai.

DOOMAN

761.9411/50 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 25, 1939—noon.

[Received August 25—1:13 a. m.]

435. 1. I am told on most reliable authority that yesterday the Soviet Government presented to the Japanese Ambassador at Moscow a proposal for the conclusion of a Soviet-Japanese nonaggression pact. The terms of the German-Soviet treaty have so infuriated the Japanese that I cannot conceive of any reply which the Japanese Government will make other than a flat and categorical refusal.

2. The probabilities are that the Cabinet at a meeting which is to be held either this afternoon or tomorrow morning will resign, thus outwardly manifesting the conclusion of the policy of cooperation with Germany and Italy and the beginning of a new "independent policy". I expect to telegraph further comment later today.

Repeated to Peiping for Chungking and Shanghai.

DOOMAN

⁶⁸ Joachim von Ribbentrop, German Minister for Foreign Affairs.

794.00/152a : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 25, 1939—6 p. m.

266. Having in mind the turn of events in both Japan and Europe which has followed the unexpected announcement of the German-Soviet non-aggression agreement and the possibility inherent in the situation of unpredictable developments in the Far East, the Department is confident that you will be on the alert for any indications of any new and important diplomatic moves initiated by the Japanese Government or by the diplomatic representatives of other powers at Tokyo and that you will promptly report any such indications to the Department.

HULL

761.9411/51 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 25, 1939—7 p. m.
[Received August 25—10:05 a. m.]

437. Our 435, August 25, noon.

1. The source referred to in paragraph 1 of our telegram under reference was the German Ambassador. Schwartz [*Ott?*] inquired informally at the Foreign Office whether any report to the effect that a Soviet proposal for a non-aggression pact had been received from the Japanese Ambassador at Moscow and the reply was "no but the German Ambassador is now obviously in a much better position than we are to know what is in the mind of the Soviet Government."

2. I am informed that the German Ambassador has put forward to the Japanese arguments as follows:

The greater part of the Soviet Army has until now been maintained in Europe against a possible threat from Germany and the conclusion of the Soviet-German treaty relieves Russia of the need for maintaining such forces. Germany is, therefore, in a position to persuade the Soviet Government to revise its attitude toward Japan and to establish friendly relations with that country. The opportunity is thus afforded Japan to align itself with Russia and Germany and to have their support in attacking Great Britain, their common enemy.

The fact that the Japanese are disclosing the arguments with which the German Ambassador is approaching them and the widely expressed revulsion of feeling against Germany are, I believe, significant indications of the Japanese thought with regard to linking up with Germany and Russia.

3. I am told by a reliable Japanese informant that plans for the forthcoming change of Government are in the hands of Prince Konoye

and Count Makin;⁷⁰ that, supported by the political parties and big business, they are endeavoring to bring about the appointment as Prime Minister of General Ugaki as first choice or General Abe, retired army officer of pronounced moderate views, or Shodta [*as second?*]. If that statement were the whole truth there could be no conclusion drawn other than that Japan will drastically revise her policy in China and her attitude toward the United States and Great Britain. But I hear from another source that the "independent policy" group are very definitely to be reckoned with and are putting forward other candidates. The greatly weakened pro-Axis group are not being heard from.

DOOMAN

761.6211/123 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 26, 1939—2 p. m.
[Received August 26—7:42 a. m.]

440. 1. Japanese thought and attitude with regard to European problems is now definitely crystallizing along the lines pointed out in our 428, August 23, 7 p. m., and subsequent telegrams, namely, the bringing to an end of special relations with Germany and Italy which were based on the Anti-Comintern Pact and reversion to a "free and open policy". Yesterday's important local developments were:

(a) after a Cabinet meeting held yesterday afternoon the Chief Secretary of the Cabinet issued to the press a statement as follows:

"It is unnecessary to say that the Japanese Government will adhere to a free and independent policy whatever might be the direction in which the European situation develops. It has been decided that in view of the new situation arising from the conclusion of the German-Soviet Non-Aggression Treaty, preparations which were in hand for strengthening of the Anti-Comintern Axis will be abandoned. Furthermore, new concepts with regard to general policy are being carefully [examined?];

(b) immediately after the Cabinet meeting the German Ambassador called at his request on the Foreign Minister to explain the German position and the latter informed him that in the view of the Japanese Government the German-Soviet Non-Aggression Treaty is a violation of the Anti-Comintern Pact and that the Japanese Ambassador in Berlin had on August 25 communicated to the German Government the decision of the Japanese Government to bring to an end the "strengthening of the Anti-Comintern Pact";

(c) the explanation of the German Ambassador, substantially along the lines presented in paragraph 2 of our 435, August 25, noon,

⁷⁰ Former Lord Keeper of the Privy Seal.

is strongly resented as an invitation to Japan to place herself at the mercy of Germany.

2. It is now being stated by the press that the Cabinet has approved the Prime Minister's decision to tender his resignation shortly. This will probably take place next week. I am informed by a Japanese very close to the Prime Minister that a political change in the Government, additional to that set forth in paragraph 2 of our 435, August 25, noon, is the desire of the Prime Minister to assume responsibility for failure of the Japanese Government to foresee the German-Soviet treaty.

3. I venture to present the thought that Japan's turning away from Germany should not be interpreted as necessarily involving the taking of an attitude hostile toward Germany and the forming of close association with Great Britain and France in the event of war breaking out in Europe. The change in Japanese policy is, as I see it, essentially a return to the middle of the road. Whether the new course will open the way to restoration of friendly relations with the United States and Great Britain will be influenced so strongly by events yet to come that the assumption that there will be a fundamental modification of Japanese attitude toward the United States and Great Britain should not lightly be made.

Repeated to Peiping. Peiping please repeat to Chungking.

DOOMAN

761.9411/53 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 28, 1939—5 p. m.
[Received August 28—12:08 p. m.]

444. Our 438, August 25, 9 p. m.⁷¹

1. In a private conversation with the Counselor of the Polish Embassy on August 26, I expressed the opinion that the possibility of Japan's signing a non-aggression treaty with the Soviet Union does not exist any longer; that Japan's joining the Russo-German combination would result, as the Japanese had already pointed out, in Japan placing her head in the German noose and thus being forced to dance to any tune which Germany might choose to play and that in Japanese eyes Russia no less than Germany had committed the unforgivable crime of treachery. I further spoke along the lines of paragraph 3 of our 440, August 26, 2 p. m. The Counselor called on me this morning to say that he had reported my personal views to his Ambassador, that the Ambassador, in the light of conversations which he has had with the Japanese, agreed entirely with those views,

⁷¹ Vol. IV, p. 237.

and that the Ambassador desired that I should know of the trend of those conversations in so far as they relate to relations between Japan and Poland. The Ambassador had heard that the British Ambassador had discussed with me and the French Ambassador the possibility of profiting by the present situation to bring about restoration of Japan's relations with the democratic countries and he wished to let me know what he was doing in order that there might be no crossing of wires.

2. The Counselor said that Japanese feelings toward Poland were becoming more pronounced since the Japanese had satisfied themselves of the truth of reports that Poland had refused to permit the passage of Soviet troops through Poland in the event of war with Germany. Their feelings toward Russia and Germany, particularly, of the Japanese military, were expressed precisely along the lines of my analysis, and the Ambassador was satisfied that Japan would not fall for any inducements of a material character which might be held out either by Germany or Russia or both. Nevertheless, the Ambassador was not entirely happy over the possibility of Germany and Russia "playing tricks", and he was therefore concentrating on the task of helping the Japanese to crystallize their present attitude toward Germany and Russia.

3. I told the Counselor that those Japanese with whom I had talked showed that they had been strongly impressed by the fact that Poland was the only country immediately involved in the European situation which had never been under any delusion as to the good faith of either Germany or Russia. I therefore felt that any information which the Polish Government furnishes the Japanese Government would carry weight. The Counselor said that the latest information given the Japanese is as follows:

(a) The German Ambassador in Warsaw in his despatches to Berlin presented accurately the Polish position and left no doubt that Poland would resist German aggression in whatever form it might be manifested. The German Foreign Secretary has withheld this information from the Chancellor.

(b) The terms of article 4 of the German-Soviet Treaty were loosely drafted at the insistence of the Soviet Government in the hope that by providing for "consultation" the road will be left open for Germany to propose an alliance.

(c) On the question of attitude toward Japan there are 2 camps within the Soviet Government: one advocating non-involvement in the Far East as well as in Europe and the other a strong attitude toward Japan and positive assistance to China. This question is being debated and is to be decided within the next few days.

(The Counselor emphasized the importance of not disclosing that the Polish Government had the foregoing information.)

4. I have described this at some length for the reason that Poland and Japan which have no conflicting interests have one important common concern—Russia, and consequently the Polish Ambassador and Counselor, both outstanding members of the Diplomatic Corps, enjoy to an extraordinary degree the confidence of the Japanese. They agree with me that in the present circumstances there is no likelihood that a Soviet proposal, even if one were made, would be accepted by Japan; they share my view that Japan will for the present avoid any new commitments; and although they admit the risks if we were to proceed too rapidly, they hope that something can be done by the United States and Great Britain to insure that Japan will not tie up with the Soviet Union.

5. As the British Ambassador is to consult with me again shortly, I would appreciate receiving as soon as possible some direct word. The question whether or not some initiative should be taken to prevent Japan from falling into the arms of Germany and Russia might depend on the degree to which such development is likely. The British Ambassador believes that there is no small risk of this happening: I do not as things now stand. My considered view therefore is that the United States should not take any initiative until there should develop in Japan some momentum toward restoring good relations with us with consciousness of the modification of objectives in China which that end would entail.

DOOMAN

793.94119/574: Telegram

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

PARIS, August 29, 1939—2 p. m.
[Received August 29—9:40 a. m.]

1645. For the President. At the close of the conversation with Bonnet,⁷² recorded in my number 1644, August 29, 1 p. m.,⁷³ he said that he had a most serious request to make of me.

He had sent the French Ambassador in Washington to speak to the Under Secretary about the possibility of an American action designed to settle the war in China and to draw Japan into the French-British orbit. Saint-Quentin had reported to him that he did not know whether he had made any impression or not.⁷⁴

He, Bonnet, would like to say to me that he felt it was essential in the general interest for the United States to act immediately in this sense. He had absolute information from Berlin that the Germans were moving heaven and earth to draw Japan into the German-Soviet

⁷² Georges Bonnet, French Minister for Foreign Affairs.

⁷³ Printed in vol. I, section entitled "Final Efforts To Preserve Peace in Europe . . ."

⁷⁴ No record of conversation found in Department files.

orbit. He had urged the English to take action immediately in Japan and China; but he feared that the British action would be extremely slow and not sufficiently vigorous. Halifax and every one else in the British Foreign Office was too occupied with the problem of war in Europe to think of the Far East. The same was true at the Quai d'Orsay.

I have a feeling that you have already done something in the direction that Bonnet suggests and I believe that the less said about the matter the better. I shall therefore avoid further discussions of this subject in Paris unless they are forced on me.

BULLITT

761.9315 Manchuria/153 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, August 29, 1939—3 p. m.
[Received August 29—12: 04 p. m.]

The following is Mukden's August 28, 5 p. m. to Peiping.

"August 28, 5 p. m. 18. An official announcement today says that Soviets yesterday morning began furious bombardment of the Japanese lines at Nomonhan and Chiangchunmiao. As the latter place is situated on the 48th parallel and the 119th meridian, Soviets on this front evidently have advanced about 25 miles beyond the Halha and are heading for supply route from Hailar to Nomon. A foreign acquaintance residing at the small hotel above the railroad station at Kaiyuan tells me that he has in the past 2 months observed after nightfall an unending procession of troop and war material (especially wheeled equipment) trains proceeding north. Trans-Siberian travelers this month have noted likewise heavy Soviet troop and material movements eastward".

The above telegram was received here without a signature and the Embassy does not know whether the message is complete as received. Inquiry is being made.⁷⁵

Repeated to Chungking, Tokyo.

LOCKHART

761.9411/52 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 30, 1939—noon.

267. Your 438, August 25, 9 p. m.,⁷⁶ and 444, August 28, 5 p. m.

1. The Department appreciates having the information and valuable comments given in these and other recent telegrams.

⁷⁵ It was found to be complete.

⁷⁶ Vol. IV, p. 237.

2. The Department concurs in the views expressed by you to the British Ambassador as reported in the first telegram under reference.

3. The Department offers for your guidance in your discussions of this general subject with your interested colleagues observations as follows: it is our feeling that we should for the present at least refrain from any direct attempt to influence Japanese official deliberations in regard to foreign policy; such restraint appears to be especially advisable while the situation in Europe and the situation in Tokyo continue to be obscure; it would seem that attempts to influence the Japanese at the present juncture might be misunderstood by them; and there is greater likelihood of Japan's attitude toward the United States—and toward various other powers possessed of substantial interests in the Far East—improving if Japan is left to her own deliberations and is not subjected to any suggestion of advice or threats or blandishments by this country.

4. On August 25 the Ambassador at London reported that the head of the Far Eastern Department of the Foreign Office had informed the Ambassador that the British desire to give the Japanese an indication of British readiness to help Japan in their perplexity resulting from the situation created by the conclusion of the German-Soviet agreement if they can do so when the Japanese show signs of desiring such help, that it would be a mistake to push the Japanese too fast, and that the British prefer to let the logic of events themselves impress the Japanese with the utility of cooperating with the non-totalitarian nations.

5. We concur in the view expressed by you in the last sentence of your 444, August 28, 5 p. m., and are confident that, in the event of there developing in Japan some momentum toward restoring good relations with us, you will bear in mind, in view of the continued disregard by Japanese authorities of American rights in China notwithstanding repeated assurances of intention to respect those rights, the consideration that emphasis should be upon implementation of Japanese expressions of good intentions rather than mere reassertions thereof.

6. The Department will continue to bear in mind your desire for information or suggestions in regard to the subject under reference, as expressed in your 438, August 25, 9 p. m.

HULL

762.94/434a : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 31, 1939—8 p. m.

271. For your information there is given below the substance of a press despatch dated Paris, August 30, by Edgar A. Mowrer, *Chicago Daily News* correspondent, as follows:

Begin summary: It is reported that Germany and the Soviet Union are pressing Japan hard to accept an offer of a free hand in China in return for a guarantee of Soviet frontiers; that delay in ratification of the German-Soviet non-aggression pact is awaiting Japanese acceptance of the offer; that Great Britain and France desire to prevent an alignment between those powers; that Japan has approached Britain and France with an offer of some sort of cooperation; and that Britain and France are eager for an agreement which will guarantee their possessions in the Far East, free their hands for dealing with the European situation, and secure a reasonably strong ally to handicap the activities of Soviet Russia.

Mowrer says that the British and French are aware that they cannot afford to allow the Japanese to swallow China, because they would lose American support, and that the solution is for Britain and France to induce Japan to make peace with China and if necessary invite the United States to mediate in the Far Eastern conflict and then offer Japan compensation elsewhere, and that the British and French have consulted Washington and the case is urgent, for Britain and France believe they must act quickly. End summary.

We take little stock in much that is contained in the foregoing statements. We would welcome any comments.

Sent to Tokyo. Repeated to Chungking.

HULL

762.94/435 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 4, 1939—6 p. m.
[Received September 4—3:30 p. m.]

454. 1. The only statement in the Mowrer despatch as summarized in the Department's 271, August 31, 8 p. m. which I have reason to believe is true is that of Great Britain's desire to prevent Japan's alignment with Germany and the Soviet Union. The story appears to contain only three statements of a bona fide fact nature as follows:

First, that Germany and the Soviet Union have pressed Japan to accept a specified offer. We know no such offer has been made, and if the German and Soviet Governments have any correct perception of the sentiment here they will not make the offer in the circumstances now existing;

Second, that Japan has approached Great Britain and France with some offer of cooperation. If that is so, the British Ambassador here and the British Government are guilty of fantastic duplicity towards us, which I for various reasons do not believe for a moment is the case;

Third, that Great Britain and France have consulted Washington with a view to the settlement of the China conflict.

2. For the rest the suggestions in the story are mutually inconsistent and do not stand analysis. I can present an extended analysis but the points I have above enumerated may be sufficient for correctly appraising the story.

Shanghai please repeat to Chungking.

DOOMAN

761.94/1132 : Telegram

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

Moscow, September 8, 1939—3 p. m.

[Received September 8—1: 13 p. m.]

518. The possibility of developments in Soviet-Japanese relations and even of the conclusion of a non-aggression pact between the two countries is rumored in Moscow. Members of the Japanese Embassy however deny that any conversations affecting the general relations between the Soviet Union and Japan are in progress and state that the only discussions at the present time between the two Governments concern the Japanese oil concessions on Sakhalin Island and certain other minor matters affecting Japanese shipping. A member of that Embassy has intimated the possibility of a gradual settlement of specific problems between Japan and the Soviet Union which he said would satisfy "the desire of both countries" but expressed doubt that any fundamental adjustment between Japan and the Soviet Union could be envisaged as long as the Soviet attitude toward the Chinese-Japanese conflict remained unchanged and Soviet Russian aid to China continued.

A member of the German Embassy in private conversation voiced the conviction that the Soviet Union is prepared at the present time to adjust its relations and even to sign a pact of non-aggression with Japan but that since the attitude of Japanese Government is still not clear on the question early developments were not to be expected. In this connection it may be observed that the attacks against Japan which in the past have been characteristic of the Soviet press have recently subsided and comparatively few anti-Japanese slogans and banners were displayed in the annual parade on Red Square yester-

day in celebration of International Youth Day. Although members of the Japanese Embassy state that desultory fighting continues on the Mongolian-Manchurian frontier, the last Soviet communiqué on the subject published in the press on September 1 while reporting alleged Soviet successes in skirmishes up to August 29 both in tone and content conveyed the impression that the hostilities were nearing an end.

Although in the absence of more specific information about the subject it is impossible to forecast the possible developments in Soviet-Japanese relations I nevertheless am under the impression that the Soviet Government is at the present time interested in improving its relations with Japan and that the German Government for obvious reasons is doing everything possible to further a Soviet-Japanese understanding. I consider it doubtful, however, that the Soviet Union in view of its strengthened position resulting from the Soviet-German pact would be disposed to modify its policy in regard to China for the sake of an agreement with Japan and I believe that any substantial improvement in Soviet-Japanese relations will depend upon whether the Japanese Government is willing to accept an agreement with Russia on Soviet terms.

STEINHARDT

761.9315 Manchuria/159 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

ТокYO, September 8, 1939—4 p. m.
[Received September 8—8:18 a. m.]

464. 1. The Military Attaché was informed today at the War Office that fighting on the Mongolian border ceased 3 days ago, but that it was not known whether there was merely a temporary cessation of operations or an agreement had been reached between the Japanese and Soviet Governments to end the fighting.

2. With regard to press reports of the call on September 3 by the Japanese Ambassador on the Soviet Commissar for Foreign Affairs, the Vice Minister for Foreign Affairs informed the Polish Ambassador yesterday that Togo had pressed for settlement of only long standing questions relating to Japanese concessionary rights in Siberia and that he had raised no new questions including that relating to border disputes.

Repeated to Shanghai. Shanghai please repeat to Chungking and Peiping.

DOOMAN

761.6211/235

The Chargé in Japan (Dooman) to the Secretary of State

No. 4128

Tokyo, September 12, 1939.

[Received October 3.]

SIR: Although Tokyo was no more than a secondary focal point in the series of events beginning with the announcements of August 21, 1939 by the German and Soviet Governments of their intention to conclude between themselves a treaty of non-aggression, it would need a more facile hand than mine to do justice to the dramatic elements in the effects of those events on Japan—the awakening of the Japanese people to the dangers to which they had been exposed by the strengthening of special relations with Germany, and the steps immediately taken by Japan to put her house in order. We endeavored in an extended sequence of telegrams to keep the Department informed of events as they occurred and, wherever we could, to anticipate events before they happened. In some cases these telegrams were necessarily fragmentary in character, and I propose therefore to present in this despatch a connected narrative of recent events. With the appointment on August 30 of a new Cabinet⁷⁷ a breathing space is afforded to review these telegrams in the light of actual developments, but there appears to be need for no important revision of information already communicated to the Department.

The position of the Japanese Government with regard to the proposed alliance with Germany at the time of the announcement on August 21 of the German and Soviet Governments had not been completely clarified. It may be useful to summarize the negotiations between the Japanese and German Governments which had been in progress for many months, for, although we had informed the Department in our telegrams and despatches of the general trend of those negotiations, it has not been until the last few days that a precise account has been obtainable. I am not in a position to divulge the source, but I wish to assure the Department that the person from whom the information was obtained is not only entirely reliable but was in a position to inform himself of the negotiations in detail.

The proposal for the conclusion of a general offensive and defensive alliance between Japan and Germany was put forward by the German Government toward the end of last year and was one of the problems inherited by the Hiranuma Cabinet from the Konoe Cabinet. As is common knowledge, the Japanese Army supported the proposal, primarily on the ground that, if Japan were allied with Germany, she would be in a position to intensify the pressure against the position in the Far East of Great Britain and France and of their potential ally,

⁷⁷ See also vol. iv, pp. 443 ff.

Soviet Russia. This argument was countered by Baron Hiranuma, the Minister of the Navy Admiral Yonai, and the Minister for Foreign Affairs Mr. Arita, with the argument that if Japan were allied with Germany and were obliged to go to the help of Germany in the event of a war between that country and France and Great Britain, there would be created one factor which would operate to render inevitable the entry of the United States into that war on the side of Great Britain and France and, therefore, the eventual involvement of Japan with the United States. A compromise was then agreed upon, and a counter-proposal was made to the German Government to the effect that the alliance should become operative only as against the Soviet Union. As the Department is aware, this counter-proposal was rejected by the German Government, which insisted on the alliance being of a general character operative against all third parties. During the last stages of the negotiations, that is to say for a period of several weeks prior to the conclusion of the German-Soviet non-aggression treaty, the elements within the Japanese Government opposed to an alliance with Germany fell back on the argument that Japan was fully occupied with the conflict against China and would not, therefore, be in any position to fulfill any obligation which she might undertake to go to the help of Germany. A second compromise was then agreed upon within the Japanese Government, and the German Government was informed that Japan would enter into a general alliance with Germany, provided, however, that the right was reserved to Japan to determine when and how she would come to the help of Germany in the event of Germany becoming involved with any third Power. It was precisely at this moment that the announcement was made that Germany and the Soviet Union would enter into a treaty of non-aggression.

First thoughts of the Japanese on these startling developments were decidedly mixed. It was, of course, realized that the concerting of Japan's foreign policies with those of Germany would have to be a thing of the past, but what provided no little solace was the realization that the Anglo-French proposals to the Soviet Union with regard to an anti-aggression front were also in the discard. This presumed to be compensatory feature of the situation growing out of the German-Soviet *rapprochement* was quickly forgotten, however, in view of the obvious fact that the establishment of good relations between those countries would bring about precisely that effect which made the proposed anti-aggression front so objectionable to Japan—a strengthening of Russia's position in the Far East. What we described in our No. 428, August 23, 7 p. m., as "a thinly concealed feeling of betrayal by Germany" swelled to a roar of anger and mortification—mortification because of the clear manner in which Germany had shown its

preference for Soviet neutrality over the active support of Japan, and anger because of betrayal by a nation which was believed to be a friendly one. Fidelity to a legal principle or to a legal contract per se is not one of the Japanese virtues, but there is no greater crime in the Japanese moral code than treachery. Feeling that there had been betrayal by Germany of a nation which believed itself to be a friend of Germany's was fully confirmed when it was learned, through the publication of the text of the German-Soviet non-aggression treaty, that Germany had undertaken not to associate itself with any group of Powers in activities aimed directly or indirectly against the Soviet Union.

The Cabinet met on August 25 after the Prime Minister had individually consulted his colleagues. The decision was taken that, in the view of the Japanese Government, the German-Soviet non-aggression treaty was a violation of the Anti-Comintern Convention, and that the negotiations with Germany with regard to "the strengthening of the Anti-Comintern Convention" should be terminated. Instructions in the foregoing sense were despatched that day to the Japanese Ambassador at Berlin. In various other ways the Japanese Government sought to make it clear that Japan had washed its hands of the policy of "going along" with Germany: it was announced that Japan would revert to a "free and independent policy" with regard to European problems, the Army and the Government agreed that there was to be no entanglement in European affairs, and particular pains were taken to see to it that the representative in Japan of the American Government should know that the seductive arguments of the German Ambassador—that Germany is now in a position to procure for Japan the good will of the Soviet Union—had been rejected with scorn.

A brief reference might usefully be made to the activities of the German Ambassador, who was in Karuizawa when the news broke of the German-Soviet treaty. General Ott returned to Tokyo on August 23 and was so ill-advised as to lunch that day at the largest restaurant in the city. I was present when he entered in the company of the Italian Ambassador, and the complete silence which fell upon the room on the entrance of the two Ambassadors was most eloquent of the hostility of the Japanese there present. General Ott then went into complete retirement until Saturday morning, August 25, when he appeared at the funeral of the late Princess Fushimi. He seemed somewhat restrained but he was willing to talk. He told the Dutch Minister and me that the Soviet Government had proposed a non-aggression treaty to the Japanese Ambassador at Moscow. Later that afternoon he called at his request on the Minister for Foreign Affairs, and I understand that he made an impassioned plea for Japa-

nese support, pointing out the advantages which Germany could now bring to Japan. Within an hour after General Ott's call at the Foreign Office I was informed of the substance of the conversation. I was told that the Foreign Minister had told General Ott quite plainly that Japan could not, by procuring a non-aggression treaty with Russia or otherwise improving her relations with Russia through the good offices of Germany, afford to place herself at the mercy of the German Government.

The terms of the conversation between Mr. Arita and General Ott will, I believe, serve to explain the announcement issued by the Chief Secretary of the Cabinet on August 25 which is quoted in our No. 440, August 26, 2 p. m., to the effect that the Japanese Government will hereafter pursue a "free and independent policy" and that its special relations with Germany had been ended. I need to say little more on that subject at this time, but I would like again to make the observation which appears in one of our telegrams, to the effect that the turn away from Europe should not be interpreted as presaging Japanese hostility towards Germany—that the change in Japan's policy is essentially a return to the middle of the road. The outbreak of the war in Europe found Japan fairly well prepared, having in mind her involvements in China, to meet the exigencies arising out of the war in Europe. The resignation of the Cabinet which had been in negotiation over a period of months with the German Government with a view to the strengthening of the special relations between the two countries was in many ways a landmark. It provided an outward and visible sign of the complete termination of special relations with one of the belligerents, and it allowed a new Government to come into office and to formulate new foreign policies unhindered by previous commitments. The first important decision reached by the Cabinet was to confirm the pursuit hereafter by Japan of a "free and independent policy", to underscore the paramount importance to Japan of liquidating the conflict with China as soon as possible, and to affirm the determination of this country to avoid involvement in the war in Europe. These are the essential elements of Japan's foreign policies and comment and explanation can neither becloud them nor render them more clear.

The question arising out of that policy which is of more immediate interest and concern than any other to diplomatic observers in Tokyo is whether a *rapprochement* between Japan and the Soviet Union is probable. I have taken in my telegrams a definite position with regard to that question, as I could not see how an equivocal opinion could be helpful in any way to the Department. A number of logical and tangible reasons can be adduced to support the view that Ger-

many and the Soviet Union, especially in combination, could be extremely helpful to Japan toward settling the conflict with China. The considerations which force on me the belief that Japan would not entertain in the present circumstances a proposal for a non-aggression treaty with the Soviet Union prevail over the reasons which might be brought forward to support a contrary view. There will immediately occur to mind the basic conflict between the interests of Japan and Russia in the Far East, especially in China, the irreconcilability of militant bolshevism with Japanese imperialism, the paradox in the Japanese insistence on the one hand on maintaining troops in Manchuria in violation of the Portsmouth Treaty and claiming on the other hand fishing rights in Soviet waters and so on. But a more important consideration than all these is the fact that the Soviet Union has, like Germany, given evidence of the ephemeral character of any undertaking given by a nation which is ruled by a dictator. The one great advantage which a non-aggression pact with Russia could be expected to bring would be the relaxation of Russian pressure along the Manchurian border, thus enabling Japan to give greater attention than hitherto to her conflict with China. It is I think unlikely that, if the suggested treaty were concluded, Japan would have sufficient confidence in Soviet good faith to divert to China the substantial forces now being maintained in Manchuria to offset Soviet pressure.

Exaggerated significance has been attached to the reported desire of the new Prime Minister, General Abe, to compose Japan's differences with Russia. It would be a rational and normal desire on the part of any Japanese to bring about a permanent settlement of the important questions which have recently arisen between the Soviet Union and Japan, such as the Japanese fishing rights in Siberian waters, Japanese oil and coal mining rights in Northern Saghalien, the demarcation of the border between Siberia and Manchuria, and so on. Although it was suggested that the Japanese Ambassador called on the Soviet Commissar for Foreign Affairs on September 3 to propose or discuss some far-reaching political arrangement between the two countries, the authorities in Tokyo were quick to make it clear that the purpose of the call was to resume the long-standing negotiations on disputes of an economic character. I notice with some satisfaction that the Japanese Ambassador in Moscow has made that fact clear to our Embassy.

There appears to be some room for play in Japan's relations with Great Britain. The Department is, of course, already aware that the British Government, having in mind the requirements of the situation in Europe, has raised the question whether anything can be done in the fairly near future toward improving Japan's relations with the democratic countries. In a conversation which I had with the British

Ambassador on August 25, Sir Robert Craigie showed eagerness to find some way by which that objective might be accomplished, but he subsequently indicated to me that he had come round to my view that we should await the development in Japan of some momentum toward making the modification of Japanese objectives in China necessary if Japan were to resume friendly relations with the United States and Great Britain. However, on September 4 Sir Robert called on the Minister for Foreign Affairs and expressed the hope that it would be possible to settle outstanding difficulties by friendly discussions between the British and Japanese Governments. Notwithstanding the shock which Sir Robert had on the following day by receiving the identic note of September 5 to the belligerent Powers⁷⁸ with regard to the withdrawal of their forces from the Japanese-occupied areas in China, he communicated to the Minister for Foreign Affairs on September 8 a message from the British Foreign Secretary expressing the hope that it might be possible to settle outstanding difficulties by friendly intercourse. It will be noted from the attached copy of a paraphrase of the British Ambassador's telegram of September 8 to London⁷⁹ that the reply of the Japanese Foreign Minister at least did not close the door to future discussions looking toward an improvement in Anglo-Japanese relations.

Respectfully yours,

EUGENE H. DOOMAN

761.9315 Manchuria/182

Memorandum by the Consul at Taihoku (Warner), Temporarily in the United States

[WASHINGTON,] September 15, 1939.

Colonel Bratton⁸⁰ telephoned to state that it is reliably reported that the last battle on the Manchurian-Mongolian border was concluded on September 10 by a Japanese counterattack at the conclusion of which the Japanese had succeeded in driving the Soviet-Mongol forces to the west of the Halha (Khalta) River, which the Japanese consider demarks the Manchurian-Mongolian border at that point. Colonel Bratton stated that it is noteworthy that the Japanese did not pursue the Soviet forces beyond the border, lending support to the Japanese statement that they are interested only in defending the Manchurian border and not in invading Mongolian territory.

⁷⁸ See telegram No. 458, September 5, 7 p. m., from the Chargé in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 9.

⁷⁹ Not printed.

⁸⁰ Col. Rufus S. Bratton, of the Military Intelligence Division, War Department.

761.94/1135 : Telegram

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

Moscow, September 15, 1939—midnight.

[Received September 15—11:42 p. m.]

546 bis. My 518, September 8, 3 p. m. I have learned tonight on good authority that the Japanese Ambassador has had several interviews during the last few days with Molotov and that at a 4 hours' conference this afternoon it was agreed to settle amicably all points at issue between Japan and the Soviet Union. My informant further stated that this agreement may result in the conclusion of a Soviet-Japanese treaty of non-aggression.

Repeated to Tokyo.

STEINHARDT

761.9315 Manchuria/169 : Telegram

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

Moscow, September 16, 1939—1 p. m.

[Received September 16—8:55 a. m.]

548. My 546, September 15, 12 p. m. A Tass communiqué in today's press states that as a result of conversations which have taken place in the last few days between the Japanese Ambassador Togo and People's Commissar for Foreign Affairs Molotov both parties, i. e., Japanese-Manchurian and Soviet-Mongolian, have reached the following agreement:

1. The Japanese-Manchurian and Soviet-Mongolian forces shall cease all military activity at 2 p. m. Moscow time on September 16.
2. The Japanese-Manchurian and Soviet-Mongolian forces shall remain on the lines occupied by them at 13 o'clock Moscow time September 15.
3. Representatives of the forces of both sides shall immediately carry out points 1 and 2 of the present agreement.
4. Prisoners and dead of both sides shall be exchanged and the military representatives of both sides shall immediately reach and put into effect an agreement in respect thereto.

"In addition in the conversations between Togo and Molotov an agreement was reached that for the purpose of the demarcation of the boundaries of the Mongolian People's Republic and Manchukuo in the region of the recent conflict there shall be organized as soon as possible a commission consisting of two representatives of the Soviet-Mongolian side and two of the Japanese-Manchurian side. The commission shall enter upon its work immediately upon its creation."

Although according to the communiqué the agreement refers only to the termination of hostilities on the border and demarcation of the boundary in that region, the settlement of the outstanding point of issue in Soviet-Japanese relations undoubtedly constitutes a step in the adjustment of general relations between the two countries. The press also announces the appointment of K. A. Smetanin as Soviet Ambassador to Japan.

Repeated to Tokyo.

STEINHARDT

761.9315 Manchuria/172 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 18, 1939—6 p. m.
[Received September 18—11:45 a. m.]

482. Department's 287, September 15, 2 p. m.⁸¹

1. There is no evidence available here to indicate that the conclusion of the Soviet-Japanese agreement to end the fighting in Nomonhan can be attributed in any way to German efforts to bring Japan and the Soviet Union together. The only information which I am able to obtain from official quarters is confirmatory of the statement reported in our 478, September 16, 3 p. m.,⁸¹ to the effect that the agreement was reached without any help from Germany and that there are no negotiations either in progress or in view looking toward the conclusion between Japan and the Soviet Union of a non-aggression treaty. In fact the Foreign Office today informed me that I could accept the statement made to me on September 16 as authoritative and official. The Soviet Embassy here is in charge of a young Second Secretary who is also the only commissioned officer in the Chancery and he appears to be without any information whatever.

2. I have talked with a number of well informed and highly placed Japanese and I find no sentiment in favor of the conclusion of a non-aggression treaty with Russia. The opinion is unanimous that a non-aggression treaty in the circumstances now existing would take on the shape of an alliance, and that an alliance with the Soviet Union would be the surest way of becoming involved in the war in Europe and thus would be a fundamental departure from the basic attitude of non-involvement. The following is a syllabus of views expressed:

(a) To assume that it is as easy for Japan to enter into special relations with Russia as it is for Germany to do so would be to reason from a false analogy. Whereas there is no substantial difference between German political thought and the political thought of the Soviet Union, Japanese policy is completely irreconcilable with communism.

⁸¹ Not printed.

(b) There is a frontal conflict between Japan's continental policy and the Soviet's militant communism in China.

(c) Recent events, such as Soviet betrayal of the military agreement with France and of the non-aggression treaty with Poland,⁸² show conclusively that Russia cannot be trusted. A non-aggression treaty with Russia would be useful to Japan at this time if it could enable Japan to divert to China its large forces in Manchuria, but the lack of confidence in Russian good faith would prevent Japan from placing any reliance on any such treaty.

3. The information reported in the Department's telegram under reference to be in the possession of the British Government with regard to the desire of the Japanese Army in China to provoke a conflict with Great Britain and France and to reach an agreement with Germany and Russia is to say the least at variance with predominant thought in Japan. It has been stressed here repeatedly by leading Japanese from the Prime Minister down that the need for settling the conflict with China is the paramount consideration of Japanese policy. The prospects of bringing the conflict with China to an end either by the setting up of a new government under Wang Ching Wei⁸³ or by direct negotiation with Chungking are being viewed here with an optimism which I believe our representatives in China would regard as unwarranted. However, a few days ago I had a talk with a highly placed Japanese⁸⁴ who conferred with Wang Ching Wei during the latter's recent visit to Japan. I was informed that the purpose of Wang's visit to Japan was to urge upon the Japanese Government relaxation of Japanese pressure on the position in China of Great Britain. It may be possible that Wang has put himself forward to the British as an intermediary with the Japanese. In a draft telegram of the British Embassy here which was shown to me this morning responsive to a telegram from London the British Ambassador has agreed to recommend to the British Government the advisability of offering at this time to the Japanese to withdraw the British troops from Tientsin. These are but straws in the wind, but it seems too early to assume that the Japanese Army in China has abandoned hope of obtaining concessions from the British in respect [of Britain's] position in China either by pressure or by blandishments.

4. The fact is not overlooked that present urgent practical considerations on the part of both Japan and Russia make desirable peaceful relations between the two countries: Russia has begun active participation in the hostilities in Europe, while Japan, involved in China, is determined to devote all efforts toward a satisfactory con-

⁸² Dated July 25, 1932, League of Nations Treaty Series, vol. cxxxvi, p. 41.

⁸³ Formerly Deputy Leader of the Kuomintang, at this time in Japanese-occupied China.

⁸⁴ Prince Konoye, according to telegram No. 483, September 18, 8 p. m., from the Chargé in Japan (761.9315 Manchuria/173).

clusion of the China incident. It may be that these exigencies which undoubtedly bring out in both Japan and Russia a strong desire to avoid at this time involvement of one with the other lend color to the suggestions that significant political arrangements between the two countries are in the offing. It is my view that the cardinal points of Japanese policy are (a) speedy settlement of the conflict with China; (b) non-involvement in the European war; and (c) no new commitments. An expression of my belief that no sensational political agreement is likely between Japan and the Soviet Union or with Germany will, I hope, be more useful to the Department than an equivocal estimate calculated to meet any vicissitudes of present day diplomacy.

Summary to Shanghai for repetition to Chungking and Peiping.

DOOMAN

761.9315 Manchuria/183

The Japanese Embassy to the Department of State

The Japanese Embassy wishes to make the following statement concerning the Soviet-Japanese agreement for the cessation of hostilities in the Nomonhan area along the Outer Mongolia-Manchoukuo frontier, which was announced on September 16:

With regard to the present war in Europe, the Japanese Government has already enunciated its policy, which is to avoid involvement in that conflict and to concentrate its efforts on the settlement of the China Affair.

Japan's agreement to the cessation of hostilities and to the negotiations for delimitation of the Outer Mongolia-Manchoukuo frontier was solely prompted by the above basic policy of the Japanese Government.

It is grossly misleading to attach any deeper significance to this agreement for cessation of local fighting. There is no reason to regard it as preliminary to a non-aggression pact or to any move towards a close association of Soviet Russia and Japan. It is further to be stated that there is no foundation whatsoever for the rumor that the agreement was consummated by the good offices of Germany.

[WASHINGTON,] September 20, 1939.

740.0011 European War, 1939/593 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, October 4, 1939—8 p. m.

299. The Embassy at Moscow reporting on September 28⁸⁵ states that:

⁸⁵ Telegram No. 636, September 28, 2 p. m., not printed.

"As of interest in connection with the visit of Ribbentrop to Moscow . . .,"⁸⁶ I am reliably informed that the Japanese Ambassador had a lengthy conference with Molotov on the night of September 26."

Although the same Embassy, reporting on September 27, noted that it was of some significance that the first public report of the visit to Moscow of Ribbentrop was received from Japanese sources, which suggested the possibility that there might be discussed arrangements relating to the Far East, on September 29 Ambassador Steinhardt reported⁸⁷ that he was informed in the strictest confidence that the Far East was not discussed during the Stalin-Ribbentrop conversations. The Ambassador's informant stated that the Soviet-German agreement had been reached with a minimum of difficulty and that prior to the opening of the discussions Stalin had laid emphasis on the importance of the establishment of a firm foundation for close enduring relations between Germany and the Soviet Union and had intimated a common enmity toward Great Britain.

Embassy at Paris reporting on September 30⁸⁸ states that the Embassy was informed by an official of the Foreign Office that he knew that the Japanese were carrying on serious discussions with the Soviet Union and Germany.

The Department has no other information which throws light on the subject except press reports of General Terauchi's⁸⁹ visit to Germany.

Have you any new light on the subject?

HULL

740.0011 European War 1939/716 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, October 6, 1939—6 p. m.
[Received October 6—9:53 a. m.]

507. Department's 299, October 4, 8 p. m.

1. In conversation today with Yoshizawa⁹⁰ I said that there were widely current rumors to the effect that Japan is discussing some far-reaching political arrangement with Germany and the Soviet Union, adding that recent conversations between Togo and Molotov had aroused much speculation. Yoshizawa replied that he could say officially and definitely that the Japanese Government is not negotiating

⁸⁶ Omission indicated in the original.

⁸⁷ Telegram No. 655, September 29, 8 p. m., printed in vol. 1, section entitled "The Boundary and Friendship Treaty Between Germany and the Soviet Union Signed in Moscow, September 28, 1939 . . ."

⁸⁸ Telegram No. 2263, September 30, 7 p. m., p. 272.

⁸⁹ Gen. Count Juichi Terauchi, Japanese Supreme Military Councilor.

⁹⁰ Director of the American Affairs Bureau, Japanese Foreign Office.

any political arrangement with either the German or Soviet Governments. He explained that Togo is negotiating with Molotov for the setting up of two joint commissions: one to deal with Japanese oil concessions in Saghalien and other economic problems and the other to demark Soviet-Manchuria border. He added with considerable emphasis that these negotiations would be taking place whatever the present state of international relations in Europe might be. In an extended review of factors involved in relations between Japan and the Soviet Union, Yoshizawa arrived at conclusions closely approximating those set forth in our 482, September 18, 6 p. m.

2. Referring to the report mentioned in our 505, October 5, 7 p. m.,⁹¹ that Japan had denounced the Anti-Comintern Treaty, Yoshizawa said that D. N. B. (official German press bureau) had telegraphed to Berlin a summary of the statement made by the Foreign Minister on October 2 to the effect that the negotiations carried on by the previous Cabinet with Germany and Italy which looked toward the strengthening of the Anti-Comintern Pact had been terminated. After arrival in Berlin the press despatch had been distorted whether intentionally or otherwise, and in the distorted form had been broadcast by an Italian radio station. He repeated that there is no truth whatever to the rumor.

Repeated to Moscow.

DOOMAN

761.9315 Manchuria/189: Telegram

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

TOKYO, October 31, 1939—6 p. m.

[Received October 31—9:40 a. m.]

564. Our 482, September 18, 6 p. m.

1. We have been informed today by an official of the Foreign Office that conversations relating to a settlement of the boundary line in the immediate Nomonhan area are proceeding in Moscow and that if these progress favorably it is hoped to take up a delimitation of the entire Manchurian-Mongolian border and if possible of the Siberian-Manchurian frontier as well. It was indicated that the Japanese Government is restrainedly hopeful that—contrary to the failure of the commission established after the Changkufeng incident to accomplish anything—some progress toward a settlement of the vexed border question may come about to put an end to the costly and futile series of frontier “incidents” that have taken place in the past.

The Japanese press today announced the arrival at Harbin of Smetanin, the new Soviet Ambassador to Tokyo (formerly Counselor

⁹¹ Not printed.

here), with a suite of 12 persons including a new Counselor. He is quoted as having referred to the Nomonhan truce agreement as an indication that he and his Government are prepared to cooperate for an adjustment of Soviet-Japanese relations. His appointment, coinciding with the signing of the agreement, and arrival here, after over a year since the departure of Ambassador Slavoutsky—during much of which time the Soviet Embassy has been left in the charge of a junior secretary—may be viewed from the Japanese angle as showing some disposition on the part of Moscow to normalize Japanese-Soviet relations. The Japanese official referred to in paragraph 1 above however did not seem inclined to believe in the possibility of any really friendly relations between the two countries in view of their fundamental divergence of thought and interest.

Repeated to Moscow and Peiping. Peiping please repeat by naval radio to Chungking.

GREW

761.94/1181

Memorandum by Mr. George Atcheson, Jr., of the Division of Far Eastern Affairs

[WASHINGTON,] November 6, 1939.

The considerations contra appear to outweigh those pro a fundamental *rapprochement* between the Soviet Union and Japan. The considerations pro, however, are sufficiently strong to place such *rapprochement* within the category of possible, if not probable, developments.

Against such *rapprochement* stand Japanese ideological beliefs in which there are elements of religio-fanaticism and which are submerged in and are in part motivated by a religious conception of Japan's imperial destiny in the Far East. The Japanese people have been conditioned to a distrust of and an aversion to Communism and that attitude has become a profound part of their political psychology as it is based, fundamentally, upon fear—the fear of an island people that their nearby mainland neighbors are by very reason of their size and proximity a potential menace to security, that in the case of Soviet Russia the menace is increased by Soviet political philosophy and policy, that in the case of China the potential menace might become immediate if China should grow strong and united, that also in the case of China the menace would become immediate if China should adopt Communism or be dominated by Soviet influence. There has hence arisen an inevitable and perhaps diplomatically insoluble conflict of interests between China and expansionist Japan and between expansionist Russia and expansionist Japan. Japan is now attempt-

ing both to expand in China and to liquidate the menace felt by the Japanese to have been implied in the growth prior to 1937 of Chinese national unity and the extension of authority of the Chinese National Government. Japan is not now attempting to expand in Russian Asia and is concerned chiefly, in regard to the Soviet Union, with the actual and potential military menace which is constituted by the Soviet Far Eastern forces. That this menace is far from imaginary is apparent, for example, from the fact that the submarine and air base of Vladivostok is situated almost in the geographic center of the actual Japanese Empire (the Japanese islands, "Manchukuo" and Korea).

There stands against a Soviet-Japanese *rapprochement*, therefore: (a) psychological obstacles of a nature which it is believed are far more difficult to surmount than those which appeared to stand in the way of a Soviet-German *rapprochement*; (b) a major and traditional conflict of interests; and (c) an actual military menace not only to Japan's adventurings in China (Soviet submarines could presumably interfere to considerable extent with Japan's lines of communications to China), but to the physical security of the Japanese islands themselves. Specific problems of importance which reflect the mutual distrust and conflict of interests between Japan and the Soviet Union include Mongolia-"Manchukuo"-Korea border disputes which have resulted in large-scale hostilities, Japanese oil concessions on Saghalin Island, and the fisheries question.

It would seem that only as a temporary expedient would a definitive *rapprochement* between or alignment of the Soviet Union and Japan be possible. That such *rapprochement* or alignment would not be beyond the range of possibility is due to the facts that the rulers of both countries are at present opportunistic and expansionist in their policies; that both countries have objectives which might be furthered by such *rapprochement* or alignment; and that both have, or believe that they have, a common enemy in Great Britain whose position in Europe and India the Soviet Union wishes to undermine and whose position in China Japan wishes to destroy. Assuming that both Governments should develop the will to a *rapprochement*, it is probable that a basis for a temporary arrangement in the form of a political as well as military truce or in the form of an affirmative alignment of interests for the time being might be effected through compromise on the concrete problems which in recent years have brought Soviet-Japanese relations almost to the breaking point. The Japanese desiderata for such an arrangement might be: (a) cessation of Soviet aid to the Chinese National Government, (b) material reduction of the submarine and air forces at Vladivostok and of military forces on the Mongolia-"Manchukuo"-Korean border, and (c) "sincere" ad-

justment of difficulties in connection with the Saghalin oil concessions. The principal Soviet desiderata might be: (a) withdrawal of Japanese-Manchurian forces from the Siberian-Mongolian border, (b) adjustment of the fisheries question on a basis which would eliminate Japanese-claimed treaty rights, and (c) arrangement for consultation to dispose of various problems, including territorial problems. (It would seem unlikely that a *rapprochement* could be effected on any basis of a dividing of China between the two nations or of a demarcation of the country into contiguous Japanese and Soviet spheres of influence.)

That such *rapprochement* seems possible, if not probable, is a matter for concern because the possibility may be increased by action of the United States vis-à-vis Japan tending to increase Japan's international isolation.⁹²

761.94/1153 : Telegram

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

TOKYO, November 9, 1939—1 p. m.
[Received November 9—6:45 a. m.]

585. Our 571, November 4, 3 p. m.⁹³ Following the arrival in Tokyo yesterday of Smetanin, the new Soviet Ambassador, the press today stated that assurances of increasing friendship between the Soviet Union and Japan were given by Captain Kovalev, Soviet Naval Attaché, en route to Vladivostok on home leave. Kovalev is reported by the press as stating:

"I am sure that the future will bring about a progressive increase in friendship between Japan and the Soviet Union. The peoples of Japan and the Soviet Union should use care to see that they are not influenced by propaganda reports spread by Britain and the United States in an attempt to cause estrangement between them.

So far as China is concerned there is nothing that should cause concern about the relations between Japan and the Soviet Union. I have no doubt that Ambassador Smetanin will take an early opportunity to communicate frankly the wishes of the Soviet Union to the Japanese authorities. I think that negotiations will be held for a general adjustment of Soviet-Japanese relations parallel with the Moscow and Chita talks.

I understand that Ambassador Smetanin will hold a meeting soon with the Soviet Ambassador to China but I am not at liberty to discuss the venue of the meeting."

Repeated to Moscow and Peiping; Peiping please repeat to Chungking.

GREW

⁹² Marginal notation by the Adviser on Political Relations (Hornbeck): "It takes both Japan and Russia to conclude a Jap[anes]e-Sov[ie]t Pact."

⁹³ Not printed.

761.94/1154 : Telegram

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

PARIS, November 10, 1939—11 p. m.
[Received November 11—10:26 a. m.]

2723. The French Ambassador to Moscow, Naggiar, said to me today that he expected to leave Paris for Moscow tonight. . . .

He added that he was returning to Moscow for the purpose of investigating reports which he was compelled to regard as true, to the effect that about a week ago the Soviet Government had proposed to the Japanese Government that the Soviet Union and Japan should settle their differences and should collaborate in the division of China.

I expressed skepticism but Naggiar insisted that the Russian proposals to Japan were most serious. He added that Russian influence in Sinkiang had now become so great that Sinkiang was controlled as completely by the Soviet Union as was Outer Mongolia. He believed personally that there was a possibility that the conversations now in progress between the Soviet Union and Japan might result in a complete partition of China between Japan and the Soviet Union similar to the partition of Poland.

BULLITT

761.9315 Manchuria/194 : Telegram

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

MOSCOW, November 13, 1939—7 p. m.
[Received November 13—2:26 p. m.]

890. Although not reported in the Soviet press, information indicates, I understand, that the discussions which have been taking place here between the Japanese Ambassador and Molotov in regard to the settlement of boundary questions has resulted in an agreement for the delimitation of the Mongolian and Manchurian border and the appointment of a commission composed of 20 Soviet representatives and 20 Japanese to meet in the very near future at Chita for this purpose. I further understand that when the Mongolian-Manchurian border question has been settled the commission will proceed to Harbin to take up the establishment of the Soviet-Manchurian frontier.

STEINHARDT

761.9315 Manchuria/198

Memorandum by the Under Secretary of State (Welles) of a Conversation With the Japanese Ambassador (Horinouchi)

[WASHINGTON,] November 15, 1939.

The Japanese Ambassador called to see me in order to present his new Counselor, Mr. Morishima.

In the course of a somewhat desultory conversation the Ambassador asked me if this Government had taken any cognizance of the remarks with regard to the United States contained in the recent speech of the Soviet Foreign Minister, Mr. Molotov.⁹⁵ I replied that this Government had paid no attention to them, and reminded the Ambassador of the President's remark that he did not believe bad manners should engender bad manners. The Ambassador said that he had been delighted with this statement of the President, which he thought placed matters in their right and true light.

I then took occasion to say to the Ambassador that I had seen with interest in the press that the new Soviet Ambassador to Japan, Mr. Smetanin, was undertaking conversations very vigorously with the Japanese Government, and I inquired whether the Ambassador knew if those conversations covered a wider range than the demarcation of the Mongolian frontier. The Ambassador said that he was not specifically informed, but that he thought he would have been if anything of importance had been advanced by the Soviet Ambassador. He said that he personally believed that it was entirely outside the realm of possibility for any real understanding to be reached between Japan and the Soviet both by reason of the nature of Soviet policy and by reason of the kind of regime which exists in Russia. He said that he saw no present solution of the controversy involving the oil concessions in Sakhalin or of the fisheries dispute, and far less possibility of any understanding with regard to general far eastern policy.

At the conclusion of our brief conversation, the Ambassador said that he was anxious to have a long conversation with me and inquired whether I would receive him for that purpose next week. I replied that of course I would be happy to see the Ambassador at any time, and he said that he would call my office to arrange for an appointment on Monday.⁹⁶

S[UMNER] W[ELLES]

⁹⁵ Speech of October 31; see telegram No. 847, November 1, 10 p. m., from the Ambassador in the Soviet Union, *Foreign Relations, The Soviet Union, 1933-1939*, p. 786.

⁹⁶ See memorandum by the Under Secretary of State, November 24, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 36.

761.948/198: Telegram

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

TOKYO, November 17, 1939—2 p. m.
[Received November 17—4: 06 a. m.]

610. Our 607, November 16, 6 p. m.⁹⁷

1. In conversation today with the Soviet Ambassador he told me that while the Foreign Minister had requested that the fishery negotiations be conducted in Tokyo, the Ambassador has referred the point to Moscow and that it has not yet been settled.

2. Asahi's report concerning the border delimitation conference is substantially correct.

3. The Foreign Minister gave definite assurances that the final Japanese payment on the Chinese Eastern Railway would now be made.

4. The question of oil and coal in North Sakhalin was not touched upon in Smetanin's conversation with the Foreign Minister.

Repeated to Moscow, cipher text mailed to Peiping.

GREW

761.9315 Manchuria/195: Telegram

The Chargé in the Soviet Union (Thurston) to the Secretary of State

MOSCOW, November 20, 1939—10 a. m.
[Received November 20—8 a. m.]

915. Embassy's telegram 890, November 13, 7 p. m. This morning's papers publish the following communiqué from the Foreign Office:

"On the 19th of November the People's Commissar for Foreign Affairs of the Soviet Union, V. M. Molotov—with plenipotentiary powers from the Governments of the U. S. S. R. and the Mongolian People's Republic, and the Japanese Ambassador in Moscow, Mr. Togo, with plenipotentiary powers from the Governments of Japan and Manchukuo, concluded an agreement relating to the composition, functions and place of work of a mixed commission composed of two plenipotentiaries from the U. S. S. R. and the Mongolian People's Republic on the one side and of two plenipotentiaries from Japan and Manchukuo on the other for the demarcation of the boundary between the Mongolian People's Republic and Manchukuo in the region of the recent conflict. The commission will enter upon its functions in the near future in the city of Chita. The second half of the sessions will take place in the city of Harbin.

Moreover, an exchange of opinions took place between Comrade Molotov and Mr. Togo relating to the fundamental principles upon which a Soviet-Japanese trade agreement should be based. The exchange of opinions indicated the existence of similar views upon this subject.[⁹⁷]

THURSTON

⁹⁷ Not printed.

761.94/1158: Telegram

The Chargé in the Soviet Union (Thurston) to the Secretary of State

Moscow, November 24, 1939—11 a. m.

[Received 11:55 a. m.]

935. Embassy's telegram number 915, November 20, 11 [10⁹] a. m. Members of the Japanese Embassy recently remarked to an officer of this Embassy that the present preoccupation of the Soviet Government with questions relating to its western frontiers affords an opportunity for Japan to undertake to bring about the settlement of certain troublesome questions pending with the Soviet Union notably those relating to the Far Eastern fisheries and the Sakhalin coal and petroleum concessions. They stated that the negotiations now in progress are directed to this end only and that no general agreement of a political nature such as a non-aggression pact is contemplated by Japan.

They stated that no decision had been reached as to the place where negotiations are to be held with respect to the development of trade between the two countries but that Tokyo is preferred by Japan⁹⁸ largely because of the lack of personnel in the Embassy here experienced in handling economic matters. The Soviet Government however has suggested that a Japanese trade delegation be sent to Moscow. Although they stated that the Soviet Government desires to purchase green tea as well as a considerable amount of auxiliary equipment for its Far Eastern fishing fleet they did not otherwise indicate the precise nature of the commerce which might be developed between the two countries. There is reason to believe that the Japanese Embassy is exploring the possibility of obtaining certain non-ferrous metals such as molybdenum, tungsten and nickel of which, however, there is a scarcity in the Soviet Union. They expressed the view however that unless the Soviet Government alters its foreign trade policies it would be difficult appreciably to expand Soviet-Japanese trade.

Although it is probably true that as stated by the persons cited the present negotiations at the moment do not envisage the conclusion of a Japanese-Soviet pact of non-aggression, some foreign observers in Moscow (including members of the German Embassy) have expressed the opinion that Stalin desires such a pact and would be prepared to withdraw support from China in order to facilitate its conclusion.

THURSTON

⁹⁸ In telegram No. 971, November 30, 4 p. m., the Chargé in the Soviet Union reported a statement by a member of the Japanese Embassy that the negotiations would be held in Moscow (761.94/1169).

761.94/1162 : Telegram

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

TOKYO, November 27, 1939—3 p. m.
[Received November 27—9 : 57 a. m.]

626. 1. My British colleague today handed me the text of a telegram which he states that he together with the French and Polish Ambassadors sent to their respective Governments on November 22nd. Craigie says that the three Ambassadors had wished to consult with me before sending the telegram but that owing to my absence in the Kansai they felt that they could not delay it until my return yesterday.

2. In this connection please see another telegram which I am sending shortly on the subject of a possible Japanese *rapprochement* to Soviet Russia.⁹⁹

3. There follows a close paraphrase of the telegram mentioned in paragraph 1 :

Despite the fact that Soviet-Japanese diplomatic exchanges have only reached the stage of preliminary soundings regarding such matters as the delimitation of frontiers, fisheries, the Saghalien concessions, et cetera, as well as the amelioration of commercial relations, a growing tendency exists for Japanese-Soviet relations to move toward a *détente* of a general political nature.

Information of which the accuracy is difficult to assess here indicates that Soviet Russia, with a view to maintaining a free hand in Europe, has in contemplation a political and economic improvement of its relations with Japan possibly including an understanding concerning China at the expense of the latter country. The Soviet Union, seizing as a pretext the present dissensions between the Chinese Communists and the Kuomintang, would be prevailed upon temporarily to maintain an attitude of detachment toward Japanese action in China, it being understood however that the position and influence already acquired there by the Soviet Union and the Chinese Communists would remain safe and unimpaired. In the event that a plan of this nature for the division of China into spheres of Soviet and Japanese influence should be successful, Generalissimo Chiang would find himself without allies or other support, and the prospects of a success of the projected Wang Ching-wei regime would be enhanced to that extent.

Today the liquidation of the war in China constitutes the first objective of Japanese policy, to promote which Japan might even be prepared to go so far as to cooperate with the Soviet Union by assuming an attitude of benevolent neutrality toward Germany.

Propaganda emanating from Germany is busy in Japan preparing the ground for Soviet overtures and seeking to direct them along lines of a specifically political character. In form, this would constitute a sort of triple alliance designed to increase the resistance

⁹⁹ See telegram No. 631, November 27, 9 p. m., *infra*.

of Japan to foreign pressure in China, at the same time in effect relinquishing the non-communist areas of China to Japan. The additional incentive is being held out that, once in the position of having safeguarded her northern flank through the reaching of an understanding with the Soviet Union, Japan would be in a better position at the opportune time to make an attack against the East Indian possessions of the Netherlands.

In Japan the atmosphere is confused and favorable to such suggestions as the foregoing. Pending the opening of the Diet the Government's position is not too strong, for the financial and economic situation is undergoing an increasing strain. The desire is universal to liquidate the China affair but no one knows how to achieve this end. As a result of the increasing cost of living as well as of the growing lack of essential commodities there is much popular discontent. Although the army is of course normally anti-Soviet, opinion therein is taking an increasing interest in the plan for an understanding with the Soviet Union as subordinated to offering the speediest method of liquidating the war in China without undue detriment to the immediate political and economic objectives of Japan. If this attitude should ultimately prevail in the army it seems probable that the Cabinet not [*now?*] in power, once it had prepared the ground for a new policy by disposing of the monetary issues that are now being discussed, would sooner or later resign in order to make way for a Cabinet ready to take more extreme measures. It should be remembered constantly in this regard that the Japanese Army is desperately desirous of liquidating the China affair before its prestige at home, which is waning, has seriously undermined its hold on Japan [*and?*] that in exchange for an understanding with the Soviet Union which would allow it to attain its objectives in China at an early date the army might even be prepared to see the future mortgaged. Finally, it should be borne in mind that the opinion of the army if it is sufficiently united will in the long run be the determining factor in this particular matter. In fine, notwithstanding admitted improbability that the Government here would rashly commit itself to Soviet Russia by the conclusion of a general political entente therewith or of some compromise in China of a dangerous nature, we cannot overlook the possibility that at this moment undue pressure from the democratic countries might result in driving Japan in that direction. After the expiration of the American Treaty and with the danger of the imposition of an American embargo—should no concessions satisfactory to the United States meanwhile be obtained from the Japanese Army in China—the difficulties of the situation will increase.

It may be asserted finally that in default of early steps to improve relations between Japan and the Western democracies, the danger exists that the foreign policy of Japan may fall into the control of extremists without experience. In that event an internal political situation of a grave nature would ensue, carrying with it repercussions in China from which the Soviet Union alone could profit.

761.94/1163 : Telegram

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

TOKYO, November 27, 1939—9 p. m.
[Received November 27—2:50 p. m.]

631. The following telegram was drafted early last week during my absence in Kobe but in view of the importance of the subject matter was held against my return. I am forwarding it with my approval.

1. The following comment is offered on the possibility of there being concluded some special political arrangement between Japan and the Soviet Union, a subject which is now being widely discussed in informed circles but not in the press. In our 482, September 18, 6 p. m. the opinion was expressed that in view of certain basic and long term considerations Japan would not conclude any such arrangement with the Soviet Union. My information today is not what it was when that estimate was made, notably in respect of relations with the United States, and the fact is that there has recently developed a movement of strong proportions favoring the coming to terms with the Soviet Union.

2. A friendly Ambassador with whom we have close relations informed us some time ago that the Vice Chief of the General Staff had told him that there are taking place exploratory conversations with the Soviets which might perhaps lead to some working arrangement between Japan and the Soviet Union with regard to China. Members of my staff subsequently met informally officers in the General Staff who have served in the United States and the latter confirmed the holding of such conversations. They said that the General Staff is also equally divided on the question whether a working arrangement should be made with Russia. Our informants themselves are opposed to it. They said that it was plain to them that the Russians are trying to play with the Japanese the same game that they successfully played with the Germans, that is, to lull the Japanese into feeling secure against any possibility of danger from Russia in order that Japan might be emboldened to take against the United States, an attitude calculated gravely to impair relations between the latter countries. These officers stated that the General Staff as a whole has been aware of the danger of flirting with the Russian representatives but that there is a growing faction which believes that the Soviet Union can be maneuvered around in some way as to promote the bringing to an end of the hostilities in China.

3. The Foreign Office, although emphasizing the importance of settling various standing issues with the Soviet Union, continues to deride the possibility of there being concluded any arrangement

which would in effect bring Japan closer to Germany and the Soviet Union at the expense of her relations with the United States and Great Britain.

4. The Department will appreciate that we have not been alarmist with regard to this matter and we do not desire to convey the impression that some special arrangement with Russia or Germany or with both has already secured the support of the predominant part of those who formulate Japanese policy. In fact, so long as members of the Government continue to emphasize the importance of Japan's continuing an "independent policy", the probabilities are that any such arrangement is a project of the minority. Nevertheless the receptiveness which the idea finds in the General Staff, the fountain head of opposition to Russia and to Soviet thought, at a time when pessimism more prevalent with regard to relations with the United States, requires modification of our earlier opinion excluding the likelihood of any such arrangement being made.

GREW

761.94/1164: Telegram

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

PARIS, November 28, 1939—5 p. m.

[Received 9:43 p. m.]

2845. Chauvel, Director of Far Eastern Affairs, asked to see me today and gave me to read the text of a seven-page telegram sent on the evening of November 23 by Arsène-Henry, French Ambassador to Tokyo.

The telegram stated that the British Ambassador, the Polish Ambassador, and he himself (Arsène-Henry) were all so much disturbed by the negotiations in progress between the Japanese Government and the Soviet Government that they had decided that it was their duty to communicate their opinions to their respective Governments in identical language.

They stated in brief that they feared that if the present Japanese Government should be unable to reach an agreement with the Government of the United States through the conversations between Ambassador Grew and Foreign Minister Nomura the Abe government would be overthrown and replaced by a government of militarists which would conclude an agreement with the Soviet Union and would wipe out French and British interests in the Tientsin area and other areas in North China and perhaps also in Shanghai.

The three Ambassadors added that the German Government was doing everything that it could to bring about a *rapprochement* between

the Japanese and Soviet Governments; and also was doing everything possible to increase ill feeling in Japan against the United States in the hope that a [contest] might develop between the United States and Japan of such dimensions that American supply to France and England might be cut off.

Chauvel added that on the receipt of this telegram which had arrived badly garbled and had therefore required repetition which had occasioned some delay, he had telegraphed to the French Ambassador in Tokyo suggesting that the British, French, and Polish Ambassadors in Tokyo should communicate their views to Ambassador Grew. He also had sent a copy of the telegram in question to Saint-Quentin¹ instructing him to make such use of it as he might consider highly important.

Chauvel added that about 8 days ago he had sent a telegram to Saint-Quentin asking him to see the Acting Secretary and to call the attention of the Acting Secretary to the possibility that if Japan should be unable to reach an agreement with the United States the present Government in Japan might [resign?] and might be replaced by a government of militarists which would seek immediate agreement with the Soviet Union.

Chauvel went on to say that he hoped the Government of the United States understood that in making these communications the French Government in no way desired to alter the line of policy which had been followed of late by the American Government. The French Government was most happy that the American Government was following its present line. The French Government merely wished to be certain that the American Government was aware of the possibility of danger involved in the Soviet-Japanese conversations.

I asked Chauvel if he had any recent information with regard to Soviet supplies to China. He replied that he had, and that these supplies of late had been much greater than ever before.

I expressed skepticism as to the possibility of an agreement between Japan and the Soviet Union for the division of China. Chauvel said that he too was skeptical, but that, through a most private source, he had learned yesterday that the representatives of both Mitsui and Mitsubishi in Paris were now convinced that the Soviet-Japanese conversations would lead to an accord that would involve the cessation of Soviet supplies to China.

I asked him if he did not believe that even though the Soviet Government might make such a promise it would in reality continue to send supplies to China. He said that he agreed. He did not believe that the Soviet Union would keep its word to Japan but an

¹ French Ambassador in the United States.

agreement between the Soviet Union and Japan might have a surface appearance of reality sufficient to encourage Japan to take violent action against the French and British position in both North China and Shanghai.

I expressed skepticism on this point also citing the attitude taken recently by the Government of the United States.

Chauvel then said that the substance of his worry was the following: There were many persons in Paris who knew nothing about the Far East. Indeed there was almost no one who did know anything about the Far East. Such persons in and outside the present Government looking at the Far East superficially were arguing that since Russia was supporting Germany, France should make an agreement with Japan at the price of sacrificing China if necessary. He personally had to combat this point of view every day. The French Government had taken no step in this sense and he believed that any such step would be folly. He would be extremely grateful to me, however, if I could obtain from my Government a statement as to our view of the present situation in the Far East in order to give him some sort of a further weapon with which to combat those who desire a change in French policy. He went on to say that the successful Japanese attack on Nanning had provoked a new wave of arguments from those persons who desired the French Government to appease Japan at all costs.

I said that for my own part I was absolutely confident that our policy in the Far East was based on the fullest information which was both gathered and considered by our ablest brains in foreign affairs. I felt sure that our Government was taking no step in the Far East without the fullest possible consideration and I was confident that my Government would be careful to avoid provoking a Japanese attack on the British and French interests in China.

No doubt both Grew and Saint-Quentin have communicated to you the contents of the telegram of the three Ambassadors. If you can give me some sort of a message to pass along to Chauvel who is, I am convinced, entirely sincere, I should be obliged. If you do not care to give me such a message I hope that you will inform me the moment that you receive any information of a change in the French position since if informed in time I believe that I might have some influence with Daladier.²

BULLITT

² President of the French Council of Ministers (Premier).

761.94/1164 : Telegram

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

WASHINGTON, November 30, 1939—4 p. m.

1463. Your 2845, November 28, 5 p. m.

1. Department shares the skepticism which you felt and expressed. Department is, as you believed, giving fullest possible consideration to all available information; also, to the logic of fundamental facts in the situation. High officials of this Government have on many occasions stated that we wish at all times to be fully considerate of the rights and interests of all countries concerned in the Far Eastern situation; and our attitude and efforts in regard to that situation are constantly influenced by that principle. We are proceeding with patience and caution.

2. We have noted with care the expressions of their collective opinion given by the three ambassadors to their respective governments. It would be helpful to us, in our efforts to evaluate their reporting of their apprehensions, were we to have indication and estimates of what inducements they think it (a) possible and (b) likely that the Soviet and the Japanese Governments respectively would offer each other as the basis for a political *rapprochement*. In other words, what could and would each side concede to or promise to the other, and, in each case, for what reason from point of view of self-interest. It might be helpful, in connection with these apprehensions, for those who entertain them to attempt to formulate for purposes of speculative evaluation, the possible content of a possible agreement such as they fear may be concluded.

3. Mr. Grew was away from Tokyo when the telegrams were sent on November 22 by the three other ambassadors. He was informed of the sending and substance of the said telegrams on November 27, the day after he returned to Tokyo. In the interval, the British Ambassador here, stating that he was doing so on his own initiative, expressed to the Department certain apprehensions. The French Ambassador has approached the Department in a similar sense.

4. The Department will keep carefully in mind the request with which your telegram under reference concludes.

5. You may inform Chauvel of the substance of numbered paragraphs 1 and 2 above. You might consider it useful to call his attention to substance of Mr. Welles' and Mr. Messersmith's statements relating to the Far East, reported in Radio Bulletins No. 272 of November 17, No. 275 of November 21³ and No. 276 of November 22.⁴

HULL

³ Address of November 23 by the Assistant Secretary of State, Department of State, *Bulletin*, November 25, 1939, p. 579.

⁴ Press conference statement of November 22, *ibid.*, p. 588.

761.94/1170 : Telegram

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

PARIS, December 1, 1939—4 p. m.

[Received 8 p. m.]

2879. I communicated the contents of the first two paragraphs of your 1463, November 30, 4 p. m. to Chauvel this afternoon. He was most grateful for the communication.

Chauvel said that he would send a telegram this afternoon to the French Ambassador in Tokyo requesting him to formulate and state at once to Ambassador Grew the exact facts and fears which had motivated the identic communication of the three Ambassadors to their respective Governments.

Chauvel added that he would be extremely grateful if in the future when our Government took any action in the Far East an explanation of such action might be communicated to him through me. He stressed the intense concentration of the higher officers of the Quai d'Orsay on the affairs of Europe and his need for information which would assist him to keep French policy in line with our policy.

Chauvel went on to say that his most recent information led him to believe that the present Japanese-Russian negotiations might lead to a temporary solution of the perennial question of the fisheries and to an agreement with regard to the oil of Sakhalin, and a number of polite words; but that in reality there would be no real cooperation between the Soviet Government and the Japanese Government.

He said that his latest information from China indicated that the chief obstacle to the setting up of a so-called Chinese Government under Wang Ching Wei was the refusal of Wang Ching Wei to form a government until the Japanese should be ready to hand over to his government control of the Chinese customs and the Salt Gabelle and to withdraw their forces from the entire Yangtze Valley.

He stated most confidentially that representatives of the French Government were in intimate touch with Wang Ching Wei and were convinced that, although pretending to work with the Japanese Government, he was in reality working against the Japanese Government in his own way.

Chauvel said that the Japanese Government would not accede to these demands of Wang Ching Wei because the Japanese Government realized that as soon as the Japanese troops should be withdrawn from the Yangtze Valley the troops of Chiang Kai Shek would enter it.

It was possible of course that some sort of a compromise finally would be made by Wang Ching Wei and the Japanese Government but he felt certain that such a compromise could lead only to great

difficulties between the government which Wang Ching Wei might set up.

It was asserted that if a government set up by Wang Ching Wei should begin again to pay the interest on international loans secured on the revenues turned over to his government the French and British would accept these payments.

Personally he felt that the only great danger which might arise to French and British interests in China was the danger that the present Japanese Government should be overthrown and be replaced by militarists and would push the Tientsin question ruthlessly.

Personally he thought that the question of Tientsin should be liquidated and that the question of Chinese funds in Tientsin should be solved by turning over these funds to the Belgian Bank in Tientsin. He had been informed that Craigie, British Ambassador in Tokyo, had negotiated a compromise with the Japanese Government on the subject of Chinese currency in Tientsin.

If these two questions should be got out of the way there will not be much excuse for the Japanese to take violent action in the Tientsin area.

He said that his latest information from Chungking on the Nanning situation was to the effect that the city had been taken by the Japanese but that Chiang Kai Shek expected to make successful counterattack in the near future. On the other hand his information from Indo-China was to the effect that the Japanese had been stopped in the suburbs of Nanning and had never been able to take the city.

In any event the use of the roadbed from Indo-China to Nanning for the truck transport was now impossible and it seemed to him inadvisable for the French Government at the present moment to send rails for the completion of the railroad on the existing roadbed.

In conclusion he felt that no matter what words might be used by the Russians the Japanese Government would remain extremely skeptical with regard to the future actions of the Soviet Government. The Japanese Government moreover would probably be equally skeptical with regard to its future relations with any government which Wang Ching Wei might set up.

He felt therefore that the moment was not an unfavorable one from the point of view of the United States for negotiations with Japan.

Wellington Koo⁶ has just stated to me that his information indicates that there is no truth in the report of the Domei agency that the Soviet Government has stopped exports of arms to the Chinese Government.

BULLITT

⁶ Chinese Ambassador in France.

761.94/1176

*Memorandum Prepared in the Department of State*⁷

[Undated.]

The Department has been informed by the American Ambassador at Tokyo⁸ that it is the view of the British, French and Polish Ambassadors that, unless early steps are taken to improve relations between Japan on the one hand and Great Britain, France and the United States on the other, extremists in Japan may gain control of Japan's foreign policy and effect a general political *rapprochement* between Japan and the Soviet Union.

There would appear to be two primary questions involved, namely, (1) whether a fundamental and far-reaching *rapprochement* between Japan and the Soviet Union is likely to occur and (2) whether the effects of such a *rapprochement* would be so seriously adverse to the interests in the Far East of the United States, Great Britain and France that there would be warrant for making significant concessions to Japan in an attempt to prevent the consummation of such a *rapprochement*.

After serious study and consideration, this Government is of the opinion that it may be practicable for Japan and the Soviet Union to arrive at agreements relating to questions such as fisheries, the Sakhalin concessions, and the delimiting of frontiers. These matters are, however, relatively unimportant. It is also conceded that a new commercial arrangement between the two countries might be arrived at, although it would seem that such an arrangement would lack any significant economic advantages to either country in view of the economic conditions existing in both countries at the present time. A so-called non-aggression pact and even some kind of a vague political accord might be arrived at. This Government does not disregard these as possibilities. If, however, such an accord were to be reached, and even if it were accompanied by other agreements relating to fisheries, the Sakhalin concessions, the delimiting of frontiers, and commerce, it is the opinion of this Government that such a *rapprochement* would not bring to Japan or to the Soviet Union material advantages of a substantial and lasting character but would only have a psychological effect of an ephemeral character.

There are certain fundamentals which exist today in the Far Eastern situation :

⁷ Copies to the French and British Ambassadors on December 2 and 6, respectively, and by mail to the Embassies in the United Kingdom, France, and Japan on December 8.

⁸ See telegram No. 626, November 27, 3 p. m., p. 83.

(1) Japan has a deep-rooted mistrust of the Soviet Union, a mistrust which has presumably been strengthened as a result of recent activities of the Soviet Union in Europe, and that mistrust will not be eliminated by the Soviet Union's participation in a *rapprochement*;

(2) Japan is maintaining large forces in Manchuria and it is not believed that Japan would feel warranted in materially reducing the number;

(3) Japan is maintaining several hundred thousand troops in China south of the Great Wall; that number cannot be materially reduced so long as China continues to resist; there is no indication that Chinese resistance will end in the near future; and, even though the National Government were to capitulate (of which there is no indication), widespread guerrilla and bandit activities would continue for a considerable period on a scale sufficient to preclude material reduction of Japanese forces;

(4) Japan is pursuing a program of elimination of Western interests in the Far East and will continue to pursue that program, regardless of whether a *rapprochement* with the Soviet Union takes place, as long as the following by Japan of that program appears to the Japanese feasible; and

(5) Japan has in the past undertaken forward movements in aggression at those times when she felt that the movements could be undertaken without becoming involved in war with a Western power; it does not seem probable that Japan will reverse that policy and take aggressive military action against the possessions in the Far East of Western powers until and unless Japan becomes convinced that the Allies will lose the present war; and

(6) It is difficult to conceive how it could be to the basic interests of the Soviet Union to contribute to the success of Japan's Imperialistic program in the Far East. For this reason, it is greatly doubted whether, should the Soviet Union, for instance, promise Japan to stop the sending of Soviet supplies to China, the Soviet Union would respect any such promise.

It is the opinion of this Government that these fundamentals will continue to exist whether or not Japan effects a *rapprochement* with the Soviet Union.

This Government has given consideration to the question of what concessions would have to be made to Japan to dissuade Japan from entering into close political relations with the Soviet Union should it be deemed that such a possibility was imminent. It is this Government's opinion that in such an event Japan would require from one or more of the powers concerned recognition of the right of Japan to a free hand in portions of China, which would necessarily involve (1) the abandonment by those powers to a large degree of their rights and interests in China and (2) cessation of acts on the part of those powers which might be interpreted by Japan as lending support to the National Government of China. These concessions would, however, if made, result, in our opinion, in serious injury to the prestige

of the governments concerned among the peoples of the democratic nations of the Western world and among the peoples of the Asiatic countries, would be of assistance to Japan in her policy of unlimited expansion, and would not eliminate the danger of Japan's committing aggression against the possessions and position in Asia of Western nations.

It is this Government's view that we should not compromise in our principles or surrender any of our material interests in an attempt to dissuade Japan from reaching an accord with the Soviet Union. Japan is employing the idea of such an accord as a threat to wrest from the democracies concessions such as those outlined above. The fact that Japan is giving so much publicity to the question of the accord indicates that she is seriously feeling the effects of her present situation and is seriously perturbed. A yielding to Japan at the present time would render illusory the hope that the course of events would lead to a result which we have striven to bring about, namely, a realization on the part of Japan that she cannot with impunity disregard treaties and international law. Furthermore, if Japan is actually intending to effect a *rapprochement* with the Soviet Union, it means that control of the Government is in the hands of extremists. In such circumstance it could reasonably be expected that an accord effected by the Government of the Soviet Union on the one hand and Japanese extremists on the other could endure only for a short period of time.

In view of all the considerations outlined above, this Government continues to believe that the principles of policy to which it adheres in regard to the Far Eastern situation are fundamentally sound and that they should not be deviated from. This Government would of course view with sincere regret the taking of any step by the Japanese Government which would reflect a decision on the part of that Government to follow further courses of action and principles of policy antithetical to those which we are convinced furnish the only sound basis for healthy relations among nations. In determining upon courses of action, this Government is endeavoring to give the fullest possible consideration to all available information and to be fully considerate of the rights and interests of all countries concerned in the Far Eastern situation. We are proceeding and expect to proceed with patience and caution.

*Addendum*⁹

In addition to the six factors mentioned in the memorandum above, as communicated to the British and French Ambassadors, it would seem that a further factor might be regarded as fundamental: namely, that there is under present conditions little that either Japan or Rus-

⁹ Not included in memorandum to the French and British Ambassadors.

sia could give or offer in the way of commercial or political concessions or assistance which would be of substantial benefit to the other party.

761.9411/59a : Telegram

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

WASHINGTON, December 5, 1939—2 p. m.

385. A press despatch under Tokyo date line December 4 to the *New York Times* states *inter alia* that "A non-aggression pact is not on the program for the settlement of Japanese-Soviet differences, Yakachiro Suma, Foreign Office spokesman, stated today in answer to questions by foreign correspondents."

Please investigate and telegraph as to accuracy of statement attributed to Suma.

WELLES

761.9411/60 : Telegram

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

TOKYO, December 6, 1939—7 p. m.

[Received December 6—9:09 a. m.]

663. Department's 385, December 5, 2 p. m. The Foreign Office today confirmed the accuracy of the statement attributed to Suma but emphasized that the statement presented only an objective fact and that no inference going beyond the text would be warranted.

GREW

761.9411/61 : Telegram

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

TOKYO, December 6, 1939—8 p. m.

[Received December 6—10:50 a. m.]

664. Our 663, December 6, 7 p. m.

1. The Director of the American Bureau during an informal and confidential discussion of Japan's relations with the Soviet Union said that so far as he knew there were no negotiations of a political character taking place with that country, the negotiations dealing with a trade treaty and with demarcation of boundaries and other specific problems falling obviously into a different category. He was told by us that there is most reliable evidence that Japanese military officers are in touch with Soviet military officers and that although there has been no suggestion from any responsible quarter that a non-aggression treaty is being discussed indications are too definite to be ignored that some arrangement is being considered which the Japanese

Army could conclude without reference to the Government: conservative speculation suggested an agreement delimiting respective Japanese and Soviet strategic areas in China. Yoshizawa made the comment that he knows of no such conversations but that he is aware of a strong feeling in the General Staff that if the Soviet Government could be persuaded to withdraw support from China, the conclusion of the conflict in China would be hastened. However, he could say definitely that a treaty of non-aggression is not being discussed with the Soviet Government.

2. There emerged from the ensuing conversation the following presentation of Japanese policy toward the Soviet Union: there is not being considered the possibility of concluding any special political arrangement with the Soviet Union prior to and in anticipation of any critical situation arising out of the termination of the commercial treaty with the United States.¹⁰ The Japanese Government is well aware of the intense feeling against Russia which has exploded in the United States as a result of Soviet aggression against Finland¹¹ and has no intention of prejudicing the prospects of adjustment of relations with the United States by conclusively tying up with Russia. If, however, relations with the United States should progressively deteriorate and were optimism with regard to future developments affecting those relations completely excluded, "Japan would be driven into a corner and would have to find some way of escape".

3. It is expected that the trade negotiations at Moscow will make rapid progress upon the arrival of Matsushima, formerly Director of the Commercial Bureau and newly appointed Minister to Sweden, who will proceed to his post by way of Moscow.

GREW

761.94/1184

*Memorandum by the Under Secretary of State (Welles) of a
Conversation With the British Ambassador (Lothian)*

[WASHINGTON,] December 6, 1939.

The British Ambassador called at my request this afternoon. I said to the Ambassador that I wished to have a conversation with him with regard to the questions which he had raised in an earlier conversation concerning fundamental problems of Far Eastern policy and that, in order to simplify matters for both of us, I would give him in writing the views which this Government held in the matter with the request that he consider the document given him not as a memorandum but merely the substance of a conversation. The pages given him were

¹⁰ See pp. 558 ff., and *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 189 ff. For text of treaty signed February 21, 1911, see *Foreign Relations* 1911, p. 315.

¹¹ See vol. I, section entitled "Concern of the United States Over Soviet Demands on Finland . . ."

identical with those which I had given to the French Ambassador on December 2.¹²

The Ambassador read the summary very attentively and then stated that his Government was very fearful that in the event that Japan believed that no adjustment could be had with the United States, Great Britain, and France concerning Japanese policy in China, Japan would be driven into the arms of the Soviet Union. In that event, the Ambassador said, it would not be the United States who would suffer, at least not at first, but rather Great Britain and France, who would be the object of retaliation of the most vigorous character on the part of Japan.

I said to the Ambassador that it would seem to me that there were many indications that Japan would make every reasonable effort to find a basis for adjustment with the United States as well as with the other western powers. I stated that information which this Government had from its Embassy in Tokyo made me believe that the Japanese Government was not undertaking any negotiations of a political character with the Soviet, although it might be possible that members of the Japanese Army were discussing questions of a political character with Soviet officers. The Ambassador immediately stated that he had just had a telegram from Sir Robert Craigie informing him that very highly placed and important Japanese officers were in fact engaged in such negotiations and that Sir Robert Craigie believed that the impression was rapidly increasing in Japan that no agreement of a character which Japan would possibly consider could be arrived at with the United States. To this I merely replied that the information which I possessed did not coincide with the information sent by Sir Robert Craigie and that, on the contrary, I believed that the conversations between the Japanese Foreign Minister and Mr. Grew¹³ had been friendly and encouraging in character insofar as the discussion of the rights of the United States and its nationals in China were concerned.

S[UMNER] W[ELLES]

761.9411/62 : Telegram

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

TOKYO, December 7, 1939—3 p. m.
[Received December 7—8:55 a. m.]

667. Our 663, December 6, 7 p. m.

1. The Foreign Office last night informed the press that Dooman inquired of Yoshizawa with regard to the accuracy of the statement

¹² See footnote 7, p. 92.

¹³ See telegram No. 656, December 4, 10 p. m., from the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 40.

attributed to Suma by the correspondent of the *New York Times* to the effect that a treaty of nonaggression with the Soviet Union is not on Japan's program, and that the statement had been confirmed by Yoshizawa. Speculative stories based on this release are the chief feature articles in all papers this morning.

2. The fact that the Foreign Office profited by our inquiry to give public indication of its position on the important question of relations with the United States and the Soviet Union respectively is, we believe, a healthy sign.

GREW

761.94/1183

Memorandum by the Secretary of State of a Conversation With the British Ambassador (Lothian)

[WASHINGTON,] December 15, 1939.

The Ambassador said that his Government was very much concerned about the Japanese and Far Eastern situation. He proceeded to say that Japan might make terms with Russia, or she might under the claim of retaliation in some way do injury to British interests and rights; and that it was felt by his Government that no opportunity should be overlooked to compose the situation in Asia, making terms with Japan. I replied that in my judgment this Government was not overlooking any of the phases of the situation. I stated that in the first place Japan might be a little slow to go in with Russia at a time when all the nations of the world except Germany were so embittered against her on account of the attack on Finland; that in the second place, while there is always a possibility that Japan and Russia might enter into a temporary alliance for each other's mutual advantage in Europe and Asia,—agreeing to a truce as to long-view differences—yet it is very doubtful if such temporary alliance will take place, although we should never overlook possibilities in such circumstances. I said further that this Government has by word and act striven in every possible way to induce Japan to agree to a reasonable settlement in the Far East and to adhere, as we have, to the basic policy of equality of industrial and commercial rights and opportunities, as well as nondiscrimination in every sense. Furthermore, we had maintained and emphasized our contentions in a letter of this Government to the Government of Japan on December 30th last.¹⁵

In conclusion, I emphasized our view that Japan has no serious disposition to enter into a settlement based on the fundamentals of American rights and interests in the Far East, but is intent only on

¹⁵ Note No. 1153 from the American Ambassador in Japan to the Japanese Minister for Foreign Affairs, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

a policy of "Manchukuoizing" China. I added that Japan is only willing to make a victor's or strict Japanese peace, which is determined from the standpoint of the military group. Such a policy could not be considered by my Government, which could only maintain with strong emphasis the basic policies and principles for which it has contended from the beginning.

The Ambassador did not press the matter any further.

C[ORDELL] H[HULL]

751.94/88 : Telegram

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

WASHINGTON, December 20, 1939—9 p. m.

407. The American Embassy at Paris has telegraphed¹⁶ summaries of telegrams addressed on November 30 and December 12 by the French Ambassador at Tokyo to the French Foreign Office and a telegram dated December 7 from the French Foreign Office to the French Ambassador which were given by Chauvel to Bullitt to read. Chauvel took occasion to say that in future he intended to communicate to this Government full information in regard to French relations with China and Japan. As the French Ambassador at Tokyo may have acquainted you with the contents of these telegrams the Department is not sending you a summary thereof.

Chauvel in commenting expressed the view that there was no likelihood at the moment of a Japanese-Russian non-aggression pact and he believed that the efforts of certain elements in the Japanese Foreign Office which had previously supported the Anti-Comintern Pact but were now advocating an agreement with the Soviet Union would be fruitless so long as conversations continue between you and Admiral Nomura.

The Department has instructed the Ambassador in Paris to inform Chauvel that the Grew-Nomura conversations seem likely to continue over an extended period.

HULL

761.94/1186

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] December 21, 1939.

The French Ambassador called to see me this afternoon. After taking up the question of representation of French interests in Moscow

¹⁶ See telegram No. 2967, December 13, 4 p. m., p. 769.

should diplomatic relations between France and the Soviet Union be severed, the Ambassador talked in his usual desultory manner about the situation in the Far East and the general situation in Europe, reading me some telegrams which his Government had sent him on those subjects, none of them containing information of any particular significance.

In so far as the Far Eastern situation was concerned, the French Government does not seem to have dispelled any of the concern earlier evinced with regard to the possibility of a Soviet-Japanese *rapprochement*, and the reports sent to his Government by the French Ambassador in Tokyo were replete with prophecies that the present Japanese Government would soon fall unless the Government of the United States agreed to negotiate a new commercial treaty with Japan. In the event that the Government of the United States did not take such action, the reports prophesied immediate understanding between Japan and the Soviet of a political character with resultant blockade and probable occupation of French Indochina, et cetera.

S[UMNER] W[ELLES]

894.00/882: Telegram

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

PARIS, December 21, 1939—7 p. m.

[Received December 21—6:44 p. m.]

3021. Chauvel showed me today a telegram from the Counselor of Embassy in Shanghai in which the statement was made that the Abe Government of Japan was growing shakier daily; that Wang Ching-wei was making larger and larger demands which the Japanese Government could not accept; that two officers of the Soviet Army had arrived in Nanking to negotiate with the officers of the Japanese Army.

Chauvel said that he was obliged to believe that the position of the Japanese Government had become most precarious. He sympathized personally with the point of view expressed by the Under Secretary in his conversation with the French Ambassador on December 2.¹⁷ He would be most obliged if I could obtain for him the point of view of my Government with regard to future developments in case the Abe government should fall. He would be especially obliged if I could obtain for him an interpretation of the action of the Japanese Government in promising to open the Yangtze in the course of approximately 2 months. He showed me a copy of an *aide-mémoire* which

¹⁷ See memorandum prepared in the Department of State, and footnote 7, p. 92.

had been handed to the British Embassy in Tokyo on this subject. He asked if this action of the Japanese had been produced by the conversations of Ambassador Grew with Admiral Nomura and if so what further developments were expected.

BULLITT

894.00/882 : Telegram

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

WASHINGTON, December 23, 1939—1 p. m.

1563. Your 3021, December 21, 7 p. m. It should be recalled that during recent years every Japanese cabinet has been subject to various and varying conflicting pressures resulting from developments of a particular moment as they affect Japan's position both internally and externally. We realize that there is a possibility but we see no reason for considering it a probability that the Abe government may soon be forced out. If it falls, what would come thereafter would presumably depend on what had preceded its fall. We are not greatly perturbed over the thought that there might follow a stronger demand for or even a consummation of a *rapprochement* between Japan and the Soviet Union.

With regard to the Japanese announcement of intention partially to open the Yangtze, subject apparently to many conditions, it is obvious that this action is associated in the minds of the Japanese with the Grew-Nomura conversations. The announcement of this intention is not new. The featuring of this intention at this time and the way in which it has been handled in the Japanese press suggests that the strategy is one of bargaining and in regard not only to economic but to political relationships. We have received indications that the Japanese Government is devoting attention to several other matters, such as the Shanghai extra-Settlement roads question. It seems evident that the Japanese Government is at present showing a somewhat conciliatory attitude toward the United States and that its attitude toward France and Great Britain is less actively antagonistic than at certain periods in the comparatively recent past. In the Grew-Nomura conversations, our Ambassador is stressing fundamentals, is not laying down conditions, and is not bargaining. We are concerned especially with principles and practices of fair treatment on the basis of equality, without preferences and without discriminations.

You may impart this information to Chauvel in your own words.

HULL

761.9315 Manchuria/200 : Telegram

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

Moscow, December 27, 1939—9 p. m.
[Received December 27—8: 15 p. m.]

1141. My 915, November 20, 10 a. m. I understand that the Soviet-Japanese Mixed Commission which has been sitting at Chita for the purpose of establishing a definite boundary between Mongolia and Manchuria has reached an agreement on this question and that the commission will move to Harbin on January 7 and proceed to the physical demarcation of the frontier.

STEINHARDT

761.9315 Manchuria/203 : Telegram

The Consul at Harbin (Merrell) to the Secretary of State

HARBIN, December 30, 1939—3 p. m.
[Received December 31—4 a. m.]

32. My No. 31, December 28, 6 p. m.¹⁸ Kubota, the head of the Japanese delegation who has just returned from Chita, informs me that a hot discussion was held and no conclusions reached at the conference. He believes, however, that the Soviet and Mongol delegates are showing a conciliatory spirit and that there is a possibility of success in Harbin.

Repeated to Chungking. Code text by air mail to Tokyo.

[MERRELL]

¹⁸ Not printed.

SOUTHWARD ADVANCE OF JAPANESE EXPANSIONIST MOVEMENT: HAINAN AND THE SPRATLY ISLANDS¹

793.94/14683 : Telegram

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

Токьо, February 10, 1939—5 p. m.
[Received February 10—11:25 a. m.]

83. It is officially announced that at 3 o'clock this morning the Japanese Navy and Army landed troops and occupied the Island of Hainan. A statement issued later by the Foreign Office spokesman says that the action does not violate the Franco-Japanese Agreement of 1907² but beyond declaring that the operations are for the purpose of exterminating the Chinese military forces on the Island³ the statement contains no explanation relating to future policy in connection with the occupation.

Although the Japanese have for some time been in possession of the Island of Waichow from which base the routes leading into China from Indo-China can be reached by aircraft without difficulty while traffic can be controlled in the Gulf of Tongking, the occupation of Hainan is of greater tactical and strategic importance in connection with the present conflict and, if converted into a well equipped naval and air base, this Island will dominate the whole coast of the mainland between Hong Kong and the southern tip of the Indo-China peninsula. Its holders can check all traffic into and out of Hanoi if a blockade were desired and possession of it by the Japanese would have a great effect on the matter of control of the South China Sea between the mainland and the Island of Luzon as well as limiting the sphere dominated by Singapore.

A further possible consideration is the relation which the occupation of Hainan may have on the Japanese southward advance policy.

In examining the political aspects of the occupation of Hainan, this action while it may be an exaggeration to look upon it as a direct reply to the American, British and French notes of October and

¹ See also *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 277 ff.

² See *Foreign Relations, 1907*, pt. 2, pp. 754 ff.

³ For the undeclared war between Japan and China, see pp. 124 ff.

November last,⁴ can be considered as a perfectly sure indication of the indifference with which the Japanese regard the recent rumors of Anglo-American joint action against Japan.

My French colleague has merely informed his Government of the announcement and will take no action unless instructed.

GREW

793.94/14691 : Telegram

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

PARIS, February 11, 1939—10 p. m. [*a. m.*?].

[Received February 11—11:55 a. m.]

263. [Here follows report on press comment regarding Japanese occupation of Hainan Island.]

Last night a pessimistic view of the matter was expressed to us by Lagarde who, as Chief of the Levant Section of the Foreign Office, is closely in touch with the Mediterranean problem. Lagarde said that in his personal opinion the occupation of Hainan constitutes the most sinister sign of recent weeks. He interprets this move by the Japanese, who he believes are well informed as to the Berlin-Rome time-table, as one of the final steps preparatory to the precipitation of events by Mussolini.⁵ He said that the French Government would probably make a strong protest jointly with the British Government but that as France has weakened her naval forces in the Far East to strengthen her position in the Djibouti area she could not at this time hope to speak to Japan with any effect.

BULLITT

793.94/14692 : Telegram

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

PARIS, February 11, 1939—2 p. m.

[Received February 11—12:48 p. m.]

264. We inquired this morning at the Foreign Office concerning the French reaction to the occupation of Hainan by a strong Japanese naval force. Hoppenot⁶ informs us that the seizure came as a brutal surprise to the French who were given no advance notification nor have they since been informed by the Japanese of the reasons for the action. Hoppenot referred to the informal understanding of over a year ago between the French and the Japanese which contemplated a *status quo* in Hainan on condition that the French would not permit the ship-

⁴For American representations on October 6, November 7 and 21, 1938, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 785, 794, and 808.

⁵Italian Prime Minister.

⁶Head of the European Section of the French Foreign Office.

ment of munitions over the Indo-Chinese Railroad to China. Hoppenot maintains that the French have faithfully observed their obligation under the arrangement and that there has been no shipment of munitions to the Chinese of any importance via Indo-China during the intervening months. Under the circumstances the French obviously regard the agreement with Japan concerning the transit of munitions across Indo-China as terminated.⁷ He believes that the Japanese action was taken at this time principally to rekindle the waning enthusiasm in Japan for the continuance of the war in China. The fact that Germany and Italy received advance notification is disturbing to the French who are not sure what interpretation should be placed upon it. He said that the French Embassy in Tokyo is being instructed to submit an energetic protest and that similar action will be taken by the British. According to Hoppenot's information the British situation is identic with that of the French in that the former have not been consulted in advance nor advised of the reasons for the Japanese action. Other than this diplomatic step, no other *démarche* is contemplated at the moment. Hoppenot said that effort was being made to obtain further details of the occupation but communication with the French Consul in Hainan had apparently been cut.

BULLITT

793.94/14690 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 12, 1939—noon.
[Received February 12—11:38 a. m.]

98. Following is semi-official *Central Daily News* version of reported replies of General Chiang Kai Shek⁸ to interrogatories of foreign correspondents at Chungking on February 11 in regard to Japanese invasion of Hainan Island:

“Question: What is the intention of the Japanese in effecting a landing of their troops at Hainan Island?”

Answer: In order to applicate [*evaluate?*] the significance of the Japanese landing at Hainan Island and its repercussions, we should consider the question of the Pacific Ocean as whole. Hainan Island is an important strategical point between the Pacific Ocean and the Indian Ocean. Should the enemy occupy the Island, not only would communications between Hong Kong and Singapore and also between Singapore and Australia be interrupted, but also the security of the Philippine Islands and Indo-China would be threatened. This would be the beginning of Japan's naval dominance on the Pacific Ocean.

When the Island has come under Japanese control, the Japanese Navy would be able to make its influence felt in the Mediterranean

⁷ See *Foreign Relations*, 1938, vol. III, pp. 591 ff.

⁸ Chairman, Chinese Supreme National Defense Council.

[*South China?*] Sea to cut the connection between the American and British naval bases in Singapore and Hawaii. Therefore the present Japanese movement at Hainan Island in reality is in the nature of a reply to the visit of the American warships to Singapore last year.

Question: Why is it that the Japanese landing at Hainan Island is considered a prelude to Japan's attempt at the control of the Pacific Ocean?

Answer: We all know that Japan has in mind three important strategic points in the Pacific: Saghalien Island in the north, Hainan Island in the west and Guam in the east. With a view to her complete naval domination of the Pacific, she has been keeping a covetous eye on all of the three bases. Should all these fall into her hands, both Hawaii and the Philippines would be as good as Japanese occupied territory. Having got possession of one-half of Saghalien Island, Japan is now trying to occupy Hainan Island in the hope of frustrating any possible concerted action that might be taken by the British and American Navies in the Pacific. If such a scheme goes on unchecked, Japan will next attempt to place herself in a position to control Guam. Eventually she would be able not only to hamper the westward movement of the American Fleet, but also to cut the line of communication with the Philippines.

For the furtherance of her southward expansion and the dominance of the Pacific, Japan for 30 years has been scheming to build a strategic triangle out of the three Islands. In 1936, when she provoked the Pakhoi incident,⁹ her intention was to use this as a pretext to establish herself on Hainan Island. For fear of international complications she dared not go any further than this. Now Japan, regardless of consequences, has invaded the Island. This move is the last desperate military attempt at the conquest of China if it is not for the purpose of inciting a world war. After several decades of hesitation, what Japan is now doing is the most important event since the commencement of the Chinese-Japanese hostilities, but it is also the turning point in the history of the Pacific Ocean. Japan has thus revealed her inordinate ambition. I do not see how those countries which have vital interests in the Far East can watch with unconcern these dangerous developments. To the Japanese Navy Hainan Island is the first line of advance in the Pacific in the west as Guam Island is in the east.

Question: Where then is the second line of advance? Smiling, the Generalissimo said that the people in Europe would be able to answer the question and that particularly the Americans well know the answer.

Question: To what extent would the Japanese occupation of Hainan Island affect peace in the Far East?

Answer: The attempt of the Japanese to occupy Hainan Island on February 10 may be considered a counterpart of their occupation of Mukden on September 18, 1931.¹⁰ In other words, by attacking the Island Japan has created another Mukden outrage in the Pacific. The effect from this is the same irrespective of the fact that one was committed on the land and the other in the sea.

⁹ See *Foreign Relations*, 1936, vol. iv, pp. 281-299, *passim*.

¹⁰ See telegram No. 599, September 19, 1931, 2:30 a. m., from the Minister in China, *Foreign Relations*, Japan, 1931-1941, vol. i, p. 1, and memorandum by the Minister in China, September 19, 1931, *Foreign Relations*, 1931, vol. iii, p. 10.

It may be recalled that during the Mukden outrage all the statesmen of the world with the exception of Colonel Henry L. Stimson, then American Secretary of State, failed to give it serious consideration. This enabled the Japanese to extend its scope of invasion continuously. Eight years have passed, and during that period, Japan has created for herself a dominating position in the Orient and has hypnotized herself into the belief that she is able to conquer the world. Should she be permitted to hold Hainan Island following the invasion of it, I believe that in a short time the foundation for her planned new air and naval base will be laid. As a consequence the international situation in the Pacific would undergo a great change. Even if France should then wish to establish a naval base in Indo-China, and the United States of America should desire to defend Guam, I fear that they would not have the needed time for doing so.

In making the present southward move Japan does not intend to use it for the termination of the Chinese-Japanese hostilities, but obviously she has made up her mind to run the risk of sowing the seeds for a war in the Pacific.

Question: What defensive measures has the Chinese Government taken in the Island?

Answer: Because of her lack of naval forces China has not given much consideration to the defense of her coast line, but her land forces have made sufficient preparations and would do their utmost to prevent the enemy occupying the Island. As to the possible Japanese attack on Pakhoi, we have taken necessary precautionary measures and are ready to offer strong resistance. All military observers hold the same opinion that the enemy's attack on Pakhoi would only lead to it being placed in a more disadvantageous position without compensating benefits in its war of aggression.

Question: What is the effect of the Japanese landing at Hainan Island on the Chinese-Japanese hostilities?

Answer: No, it has little effect on our war of resistance. The issue will be fought out on land. The occupation of an island is inconsequent[ial]."

The Chinese press on February 11 commented at length on these moves of Japan, professing to see therein an added threat to the position of Great Britain, France and the United States in the Far East and calling for positive action on the part of these Powers to check this activity. The *Sao Tang Pao* regards the invasion of Hainan as a step in Japan's southward expansion policy while the *Sin Hua Jih Pao* believes it was undertaken with a desire to prepare a base for attacks on Kwangsi. The *China Times* says Japan's move on Hainan has three motives being: (1) to control Tongking Bay and threaten communications between Hong Kong and Singapore and encircle the Philippines as a "prelude to a diplomatic backmail"; (2) to intimidate France and force the latter to suspend transportation facilities through Indo-China to China; and (3) the hope of severing one of China's international communication lines under the allusion [*illu-*

sion?] that this will bring Japan one step nearer to scoring a speedy victory.

Repeated to Peiping.

PECK

793.94/14697 : Telegram

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

TOKYO, February 14, 1939—noon.

[Received February 14—3:17 a. m.]

88. Acting under instructions from their respective Governments the French Ambassador¹¹ yesterday and the British Ambassador¹² today inquired orally of the Minister for Foreign Affairs¹³ as to the purpose, character and duration of the occupation by Japanese forces of Hainan. The Minister replied that the purpose of the occupation was to intensify the blockade of the South China coast, that the character was military and that the duration would depend upon military considerations.

Arita added to Craigie that the occupation would not be permanent.

GREW

793.94/14710 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, February 14, 1939.

[Received February 16—9:30 a. m.]

Following from Saigon.

"February 13, 4 p. m. Local press editorials of yesterday emphasize increasing uneasiness of the French here due to the occupation of Hainan and possible threat to the commerce of French Indo-China and Kwangchow. Occupation described as step toward another forced Munich Agreement¹⁴ to the detriment of French prestige and interests in the Orient. Concerning reported instructions received by the Japanese Navy to refrain from all action which might strain French-Japanese relations, high Government officer stated to me today Japanese Government had assured French Ambassador [at] Tokyo last year that Hainan would not be occupied. Well informed opinions here are that strategic advantage gained by the Japanese might have been obviated had France made timely public declaration that such would not be tolerated when it became evident following Japanese

¹¹ Charles Arsène-Henry.

¹² Sir Robert L. Craigie.

¹³ Hachiro Arita.

¹⁴ See *Foreign Relations*, 1938, vol. I, pp. 657 ff.

attacks on Yunnanfu, Nanning and Pakhoi that objective of Japanese military authorities was to close commercial routes to Kwangsi and Yunnan. High Government officers emphasize necessity of material moral support of France and England by the United States to obviate further encroachment by Japan pending solution of conflict. Governor General of Straits Settlements flew from Saigon to Hue by French military airplane February 10 to confer with the Governor General of French Indo-China. Admiral in command French war ships in the Orient now at Saigon. Information contained in the telegram from the Consul at Yunnanfu to the Department January 23, 6 p. m.,¹⁵ still unconfirmed. Press of yesterday reported Wang Ching-wei¹⁶ at Dalat. Governor of Cochin-China could not confirm the report today.”

Saigon requests that the Department furnish a confidential code which is considered necessary there. Relaying of this message has been delayed because no United States naval vessel is now in Hong Kong.

Repeated to Chungking.

SOUTHWARD

793.94/14713a : Telegram

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

WASHINGTON, February 15, 1939—8 p. m.

40. The Department desires that, unless you perceive substantial objection, you seek an early interview with the Minister for Foreign Affairs and make, as under instruction from your Government, an oral statement substantially as follows:

The Government of the United States has not failed to note the statements which the Japanese Government has from time to time made that Japan has no territorial ambitions in China. With reference to the recent announcement of Japanese occupation of the Island of Hainan, attention is invited to the fact that there are substantial American missionary and educational interests and numerous American residents, chiefly missionaries, in the Island and that the American Government maintains no consular representation in Hainan. In view of these circumstances and having in mind also the general question of the relationships among the powers, including the United States, which have important interests in and with reference to the Pacific area, relationships which have formed the basis of various international agreements, the Government of the United States would be glad to be informed as to the intentions of the Japanese Government in connection with the occupation of Hainan.

HULL

¹⁵ Not printed.

¹⁶ Recently deputy leader of the Kuomintang (Nationalist Party) at Chungking.

793.94/14715 : Telegram

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

PARIS, February 16, 1939—5 p. m.
[Received February 16—4:55 p. m.]

300. The Foreign Office tells us that they "do not believe for a moment" the Japanese assurances that the occupation of Hainan is merely a temporary measure taken for military reasons. Chauvel, Chief of the Far Eastern Division, said that if the primary purpose of the Japanese was to shut off foreign supplies from reaching China via the southwest coast this could have been accomplished much more effectively by seizing Pakhoi and pushing on to Nanning. He believes that the occupation of Hainan is part of "Axis policy" and that the Japanese have no intention of abandoning their hold on the Island.

The French Government, however, does not contemplate taking any further step at present and while placing no reliance in the Japanese assurances is at least glad to have them on the record for possible use in the future.

Chauvel said that since the occupation of Hainan the French Government had modified somewhat its instructions regarding the passage of supplies over the Indo-China Railway and that certain material which had hitherto been held up was now going forward.¹⁷

Chauvel said that upon hearing that a United States destroyer had left Hong Kong to investigate the situation of American missionaries in Hainan, the French had proposed to the British that they should each send a vessel as well, believing it helpful to show "the three flags" there at this particular time. No reply has yet been received from the British.

BULLITT

793.94/14721 : Telegram

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

TOKYO, February 17, 1939—7 p. m.
[Received February 17—7:08 a. m.]

95. Department's 40, February 15, 8 p. m. Instructions carried out in an interview with the Minister for Foreign Affairs this afternoon.¹⁸

The Minister said that the purpose of the occupation of Hainan Island is to strengthen the blockade of the South China coast and to

¹⁷ See also pp. 736 ff.

¹⁸ For Ambassador Grew's memorandum of February 17, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 830.

hasten the suppression of the Chiang Kai Shek "regime". Arita repeated the former statements of the Japanese Government that Japan has no territorial ambitions in China and added that the occupation "will not go beyond military necessity".

GREW

793.94/14737 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 21, 1939—2 p. m.

[Received February 21—11 a. m.]

123. Reference Embassy's telegram No. 98, February 12, noon. It is the Embassy's observation that far from exhibiting general trepidation over the Japanese invasion of Hainan, Chinese official circles are viewing the matter with a minimum of concern if not with a certain amount of complacency. These impressions on the part of the Chinese may be ascribed to (1) a belief that the Japanese landing on Hainan will have no material effect on the war on the mainland but will rather keep a certain number of Japanese troops occupied on the Island, and (2) a conviction that the Japanese invasion of Hainan is a diplomatic blunder which cannot but result in exacerbation of relations between Japan and the United States, Great Britain and France.

There appears to be no unanimity of opinion in Chungking in relation to Japanese motives in occupying Hainan. One popular view is that it was the consummation of a step in the development of the Rome-Berlin-Tokyo Axis, another is that occupation was undertaken with a view to gaining an added bargaining point in future diplomatic negotiations, a third that it was executed with a view to bringing pressure on France and a fourth that the operations were undertaken to propitiate the Japanese Navy in its desire for expansion to the south.

Repeated to Peiping for mailing of code text to Tokyo.

PECK

851G.014/8 : Telegram

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

Tokyo, March 31, 1939—4 p. m.

[Received March 31—9: 45 a. m.]

158. Our 157, March 30, 9 p. m.¹⁹

1. The Japanese Government has just announced to the press that Spratley Islands, lying between Indo-China and the Philippine Islands, have been placed under the jurisdiction of the Governor of Taiwan. This step appears to be tantamount to annexation.

¹⁹ Not printed.

2. The French Ambassador was called to the Foreign Office this morning and informed of this step.

3. Announcements to the press by the spokesman of the Foreign Office that my British colleague and I were also to be summoned have been retracted and reissued with bewildering rapidity. It does not now appear that we are to be called.

4. Both Great Britain and France have claimed title to Spratley Islands but when Japan also laid claim the British withdrew in favor of the French while impressing on the French the importance of stoutly defending their title against the Japanese. The French Government recently offered to arbitrate the case but the Japanese Government refused, expressing intention to annex the Island on the basis of prior occupation by Japanese fishermen. My British colleague considers this a serious development because the Islands are of strategic importance as a post of observation of naval and aerial movements from Singapore.

5. The report is current but not substantiated that the Paracel Islands are also about to be occupied by Japanese forces.

Repeated to Hong Kong for Chungking.

GREW

851G.014/8 : Telegram

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

WASHINGTON, March 31, 1939—7 p. m.

79. Your 158, March 31, 4 p. m.

1. In the absence of the Japanese Ambassador in Habana, the Counselor called this morning on an officer of the Department to communicate under instructions from the Japanese Government information in regard to the Sinnan Islands.²⁰

2. He left a paper²¹ which, in brief summary, contains information as follows:

The Sinnan Islands comprise small coral reefs which roughly lie between 7 degrees and 12 degrees north latitude and 111 degrees and 117 degrees east longitude (the paper gave an exact statement of latitudes and longitudes). The Japanese names of the principal coral reefs of the Sinnan Islands are given, among which is included a group described as Spratly Islands. The Islands were "no State's land" until 1921 when a Japanese phosphate company built permanent establishments for the development of the Islands with the full authorization of the Japanese Government which despatched a naval survey ship to the Islands in 1929. In 1931 the Japanese settlers were obliged to leave the Islands, but the work of development was resumed

²⁰ See memorandum by the Chief of the Division of Far Eastern Affairs, March 31, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 277.

²¹ *Ibid.*, p. 278.

in 1936 and has continued to date. In 1933 the French Government despatched a warship and publicly proclaimed acquisition of the Islands and sent a notification to that effect to the Japanese Government. The Japanese Government made friendly representations to the French Government to the effect that proclamation should be withdrawn and made it clear that it does not recognize the French claim to the Islands, and that it has taken all necessary measures to insure Japanese acquisition thereof. Japanese naval vessels were despatched to the Islands each year from 1935 to 1938. In 1937 the French Government again claimed sovereignty of the Islands and in 1938 despatched a merchant vessel to the Islands which landed materials and men who commenced to build establishments. The Japanese authorities on the Islands demanded the withdrawal of the French and objected to the hoisting of the French flag and the landing of goods on the Islands. The concluding paragraph of the paper sets forth the Japanese Government's position as follows:

"(5) The Japanese Government, basing their action on the close connection that has existed between the Islands and the Japanese Empire and on the right deriving therefrom under International Law, and motivated by their desire to avoid the possibility of further complications with the French Government, incidental to the hitherto vague administrative status of the Islands, have incorporated the Sinnan Islands in the territory under the jurisdiction of the Government-General of Formosa as of the 30th of March, 1939."

3. In connection with a map which the Counselor left with the paper, the observation was made to him that the Islands seemed to be quite near to the Philippines. In reply to an inquiry, the Counselor stated that the Islands were primarily useful because of the deposits of phosphate on them. The Counselor indicated, in response to an inquiry, that his Government was communicating the information contained in the paper informally for the information of the Department in view of the fact that on March 30 the Islands had been incorporated by action of the Japanese Government in the territory under the jurisdiction of the Formosan Government-General. He was informed that the information would be studied by the Department.²²

HULL

851G.014/7: Telegram

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

PARIS, April 1, 1939—3 p. m.
[Received April 1—12:25 p. m.]

613. We have inquired at the Foreign Office what information they have received regarding the Japanese "annexation" of Spratley

²² A shorter account was sent to the Embassy in France as telegram No. 238, April 5, 5 p. m. (851G.014/7).

Islands. The Foreign Office received this morning a note cabled from Tokyo by the French Ambassador to whom it was delivered yesterday by the Japanese Government. The Japanese note was written in reply to a French note of early this year. The French note proposed the settlement of the long standing controversy over the ownership of the Islands by submission to arbitration. The Japanese note answers with the announcements that Japan has assumed jurisdiction over Spratley Islands on March 30, 1939.

Officials of the Far Eastern Division of the Foreign Office with whom we talked take a serious view of the matter. It is the first time the Japanese have formally occupied French territory. It is being discussed in Cabinet meeting this morning. They explain that by a decree of 1933 the Islands were declared a French possession complement to Indo-China. The Japanese contested the French claim and the dispute has been carried on with a long exchange of notes each party basing its title to ownership on prior occupation. At present the Islands are occupied by both Japanese coolies and fishermen and by French Annamite militia. Although the latter possess a wireless, the Foreign Office does not yet know whether any further Japanese occupation has accompanied the declaration of assuming jurisdiction.

Our informants see in the Japanese move not only evidence of ill-will toward France but a two-fold purpose: 1, to place their claim on a parity juridically with the French "annexation"; 2, acquire the Islands for use as a seaplane and submarine base at a time when the other powers whose interests are vitally affected are powerless to prevent it. They point out that Japanese action was taken at a moment when France and Great Britain were faced with a most critical situation in Europe.

BULLITT

851G.014/11 : Telegram

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

PARIS, April 6, 1939—8 p. m.
[Received April 6—7: 30 p. m.]

662. Reference our 613, April 1, 3 p. m. Chauvel, Chief of the Far Eastern Division at the Foreign Office, showed us this afternoon a cable sent April 3 to the French Ambassador at Tokyo containing the text of the note which he was instructed to deliver to the Japanese Government in reply to the Japanese note of March 30.

The French note expresses surprise that the reply of the Japanese to the French proposal for arbitration concerning the Spratley Islands

should be the announcement of Japanese annexation of the Islands. The French Government protests energetically against the Japanese action and declines to recognize that French rights have been affected in any way thereby. The French Government points out that the Japanese action is hardly in accord with the spirit of mutual recognition of rights and interests as set out in the 1907 Treaty between Japan and France. The note closes by stating in effect that if this recent Japanese action is to be interpreted as an indication of the Japanese attitude towards France then the French Government will be compelled to reexamine the reasons which had led to the adoption in the past of its attitude toward Japan.

Chauvel said that one minor result of the Japanese action was that the French Government would decline henceforth to reply to any further communication from the Japanese Embassy alleging that the Yunnan Railway was being used to transport military supplies. The Japanese Government has continued to protest from time to time on this subject. Two or three days ago the Japanese Chargé d'Affaires delivered another note along this line. Chauvel will telephone him tomorrow or the next day and will state that the French Government is the sole judge of what use may be made of the railway, that it declines to take under consideration any further communications on the subject or to make any reply to them.

Chauvel stated that information from Japan indicated that the move to declare the annexation of the Island[s] by Japan had come not from the Admiralty but from the Foreign Office and that it might have been done in an effort to build up the waning prestige of Arita. There is no indication yet that the Japanese intend to occupy the Islands effectively and construct seaplane and submarine bases there.

BULLITT

851G.014/18

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] April 11, 1939.

The French Ambassador²³ called at his request. He said that several days ago he had mentioned to the Secretary the subject of the Japanese action in reference to the Spratly Islands and that the Secretary had informed him that FE²⁴ was studying the matter. The Ambassador then handed me the attached *aide-mémoire*²⁵ containing

²³ Count de Saint-Quentin.

²⁴ Division of Far Eastern Affairs.

²⁵ Not printed.

a record of the action taken by the French Government in regard to the claim by Japan of sovereignty over the Spratly Islands. I thanked the Ambassador for the information contained in the *aide-mémoire*.

The Ambassador then inquired whether the Japanese Government had given us any information in regard to its action. I replied in the affirmative and said that the Japanese Embassy here had given us informally a statement setting forth the Japanese claim to the Islands. I said that the Japanese, according to the information which they had given us, were claiming an area considerably larger than the area which the French claimed and that the Japanese referred to the Islands as the Sinnan Islands, among which there was included the Spratly group.

The Ambassador inquired whether we were going to take any action in the matter. I replied that we still had the matter under study.

The Ambassador then asked what basis there would be for action on the part of the American Government in case the Japanese should take French Indochina or Hong Kong. When I replied that it seemed to me that the same considerations which would influence this Government in regard to forceful acquisition of territory in Europe would apply to the forceful acquisition of territory by Japan such as Hong Kong or French Indochina, the Ambassador raised the question whether there was any distinction between seizure by Japan of Hong Kong or French Indochina and seizure by Japan of the Spratly Islands. I replied that it seemed to me that there might be a distinction in that there was no question as to British ownership of Hong Kong or as to French ownership of French Indochina, whereas there were two claims, a French claim and a Japanese claim, to ownership of the Spratly Islands. I said that of course I was not undertaking to pass on the merits of the respective claims; and that I did not have sufficient knowledge of the facts to place me in a position to do that even should I so desire. The Ambassador said that he realized that we were talking in purely an exploratory and speculative way. He pointed out that France had made an offer to Japan to arbitrate the question of ownership of the Islands; that Japan had replied by announcing Japanese jurisdiction over the Islands; and that this type of forceful action was very unfortunate from the point of view of adherence to international law. I indicated agreement with this observation.

M[AXWELL] M. H[AMILTON]

851G.014/13 : Telegram

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

TOKYO, April 17, 1939—3 p. m.
[Received April 17—7:08 a. m.]

179. Our 167, April 6, 4 p. m.,²⁷ Spratley Islands. The British Chargé d'Affaires has just made available to me a copy of a note which he addressed on April 10 to the Minister for Foreign Affairs relating to the Japanese action concerning the Spratley Islands. The last paragraph is as follows:

"I am instructed to inform Your Excellency that His Majesty's Government are unable to admit that the claim of the Japanese Government has any legal foundation and that they deplore the procedure adopted by them in this matter as it can only complicate still further the situation in the Far East."

GREW

756D.94/28 : Telegram

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

TOKYO, April 26, 1939—2 p. m.
[Received April 26—7:46 a. m.]

202. Our 190, April 20, 8 p. m.²⁷

1. The Secretary of the Netherlands Legation informs us that according to the Netherlands Consul at Shanghai now visiting in Japan the Netherlands Consul General at Shanghai received information from what he considered to be a reliable source to the effect that the Japanese Fleet had received orders to proceed "in the event of war in Europe" to the Netherlands East Indies under the guise of carrying out routine maneuvers following which certain demands would be presented to the Netherlands East Indies Government; but that the orders did not contemplate the immediate occupation of Netherlands territory.

2. This statement differs in one important respect from the report brought to the Department by the Netherlands Minister,²⁷ namely, the contingency of war in Europe.

3. Without knowing the source of the Netherlands Consul General's information, we are not in a position to weigh the accuracy of such information. However, in view of the secrecy which surrounds the movements of Japanese naval vessels, we are inclined to believe that his information is probably in the nature of a shrewd forecast of developments in the contingency of a European war.

GREW

²⁷ Not printed.

793.94/15009 : Telegram

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

PARIS, May 15, 1939—6 p. m.
[Received May 15—1:25 p. m.]

945. Leger²⁹ said to me today that he was somewhat fearful that Japan might be thinking of some sort of aggressive action against French Indo-China. Six times in the last week Japanese airplanes had flown over portions of Indo-China and had dropped bombs. The Japanese Government had been informed that any Japanese plane flying over any portion of Indo-China in the future would be shot at immediately. Since this warning no Japanese planes had flown over French Indo-China.

BULLITT

851G.014/17 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, May 19, 1939—4 p. m.

133. Department's instruction 1705, April 11, 1939.³⁰ On May 17 the Department addressed to the Japanese Ambassador a note in which reference was made to the memorandum left by Mr. Suma on March 31 and in which it was stated *inter alia* that the Government of the United States does not consider that all islands or reefs within the extensive area delimited in the Japanese memorandum could properly be treated as one island group or that the action of Japan in blanketing within the territory of Japan islands or reefs with respect to which the Japanese Government has heretofore exercised no acts which might properly be regarded as establishing a basis for claim to sovereignty has any international validity.

Text of the note is being mailed.³¹

HULL

792.00/28 : Telegram

The Chargé in Thailand (Chapman) to the Secretary of State

BANGKOK, July 4, 1939—2 p. m.
[Received July 4—8:40 a. m.]

23. There has been a surprising and unmistakable recent trend toward reversal of the oft repeated neutrality policy of the Siamese

²⁹ Secretary General of the French Foreign Office.

³⁰ Not printed; it transmitted copies of the two documents of March 31 printed in *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 277 and 278 (851G.014/8).

³¹ *Ibid.*, p. 280.

Government. A group of army and navy officers having strong pro-Japanese sympathies, who surround the Prime Minister, seem now to dominate the present policy of the Government. This group understands only arguments of force. Members of the Cabinet gravely fear that some rash commitment to Japan is imminent. I am convinced that departure from policy of strict neutrality by Siam in favor of Japan might be disastrous for Siam and would be inimical to American interests. The French and British Ministers are much concerned over the situation, they fully share the same views in relation to the interests of their own countries and they are in communication with their Governments accordingly. I earnestly and respectfully suggest that a useful purpose might be served if the Secretary were personally to inform the Siamese Minister substantially that great sympathy exists in the United States for democratic governments and for the cautious role of Siam, that any departure therefrom would not fail to cause concern in the United States and that communication of these views to his Government by telegraph would be appreciated.

CHAPMAN

792.00/36

*Memorandum by the Assistant Secretary of State (Sayre) of a
Conversation With the Thai Minister (Abhibal Rajamaitri)*

[WASHINGTON,] July 25, 1939.

In pursuance of instructions from the Secretary, I made an appointment to see the Thai Minister at his summer cottage at Osterville, Massachusetts, telling him that I had to be in New England on other business but was anxious to talk over a personal matter with him.

I reached Osterville at 5:43 p. m. on July twenty-fifth and took dinner with the Minister and spent the evening with him. As I know the Minister intimately, I allowed the visit to seem more of a social than an official one.

After dinner I had a long talk with the Minister and told him that I had heard certain disquieting reports about the possibility of the Thai Government abandoning its traditional policy of detachment and strict neutrality and told him of my concern lest pressures emanating from Japan should become so strong that Thailand might become involved in the struggle now in progress between Japan and China. The substance of my remarks is set forth in the accompanying cable memorandum.

In reply, the Thai Minister told me that so far as his advices are concerned he believed the reports to be ill-founded and without justification. He told me in strict confidence that the Thai people funda-

mentally mistrusted the Japanese. He went on to say that the Thai Cabinet, of which he was a former member, felt strongly that Thailand should continue its policy of strict neutrality. As an instance of this policy, he told me, in the strictest confidence, that Thailand had been approached by Great Britain and I understood him to say that Great Britain had undertaken to defend Thai ports in return for a promise by Thailand to side with Great Britain in the event of war. This offer had been refused by his Government on the ground of its traditional policy of strict neutrality.

As a matter of fact, however, I feel that the Thai Minister, being out of direct touch with what is currently going on in Bangkok, has no direct knowledge of the most recent developments and that his opinion, sincere as it is, is not therefore to be relied upon.

At the close of our friendly and intimate conversation I read over to the Thai Minister a statement which I had prepared in the form of a cable in order succinctly to set forth the thoughts which I had expressed to him. He asked me to leave a copy of this statement with him and promised to send it to his Government by cable. A copy of this statement is attached herewith.

F. B. S[AYRE]

[Enclosure]

Draft Telegram

Kalyan³² had long and friendly talk informally with me today not as American government official but as former adviser and friend of Thailand. He said in substance following:

"I feel sure you are confident of my disinterestedness and genuine concern and affection for Thailand. I have been much concerned over recent disquieting rumors of possibility of Thailand's abandoning its traditional policy of strict neutrality toward powerful rival governments struggling for ascendancy and yielding to insistent pressure for permitting use of Thailand facilities for assisting designs of Asiatic power. I sincerely hope reports untrue. Thailand's independence and welfare in past have been based largely on its steadfast policy of detachment and independent neutrality in rivalry between Great Britain and France. Today a struggle of even larger scope is in progress between two Asiatic powers with European powers vitally concerned in outcome. I feel keenly that independence and welfare of Thailand depend even more vitally than in past on its scrupulously maintaining a position of strict and impartial neutrality in this pending struggle. Once this policy is sacrificed I fear Thai independence may be seriously threatened and Thailand lose its ancient heritage."

³² Mr. Sayre.

He hopes I will make his concern clear to Thailand Government and emphasize that he is prompted not by desire of officious meddling but solely because of his affection for Thai people and his concern lest any other course lessen or impair the respect and sincere regard which American people hold for Thai people.³³

794.00/163

*Memorandum by Mr. Laurence E. Salisbury of the Division of Far Eastern Affairs*³⁴

[WASHINGTON,] November 29, 1939.

[Here follows report on Japanese press references to renewed interest in Japanese expansion southward.]

Japanese interest in military or economic expansion southward is not a new development. There are in Japan the school of continental expansion, largely centered in the army group, and the school of southward expansion, principally advocated in naval circles. The most recent concrete evidence of the policy of southward expansion was the announcement last spring by the Japanese Government of the incorporation of the so-called "Spratly Islands". The marked development in recent years of Japanese trading, fisheries and general economic exploitation activities in the Netherlands East Indies has been a source of serious concern to the Netherland authorities.

Forward movements on Japan's part in the direction of expansion have in the past been timed to coincide with occasions when the European powers have been seriously involved nearer home. It can warrantably be anticipated therefore that, as the European war progresses, Japanese thought will turn increasingly in the direction of the "South Seas" and that the likelihood of a forward movement in that direction by Japan would grow *pari passu* with British, French, and Netherland involvement in the West.

An important factor in the situation, however, is Japan's uncertainty as to what the attitude of the United States would be in the face of fresh Japanese aggression in the "South Seas". If at such time as Japan may seriously be considering a further advance southward the

³³ The Chargé in Thailand, in his telegram No. 28, August 11, 11 a. m., reported the Thai Minister for Foreign Affairs had "issued emphatic denial [of] rumors of change in neutrality policy and reaffirming policy of equal friendship with all powers alike." (792.00/32)

³⁴ The Adviser on Political Relations (Hornbeck) attached comment, dated December 5, as follows:

"Japan has staked her reputation on the adventure in China. She has spent a 'whale of a lot' of money and of blood on that venture. She is not likely to withdraw from it in order to start some other adventure. And, she is not likely to start another until she ends it—either with success or with failure."

United States has not already imposed stringent embargoes on exports to Japan, then it might be expected that Japan would be influenced in some degree toward inaction through fear that the United States might in retaliation impose embargoes.³⁵ On the other hand, if prior to a fresh southward advance on Japan's part the United States were to institute important restrictions on American-Japanese trade, Japan might be precipitated by American action into further aggression southward. It would seem, for example, that the imposing of an embargo on the export of oil from the United States to Japan might increase the temptation felt by Japan to seize the Netherlands East Indies where there are important sources of oil. However, even though Japan would unquestionably react strongly to an American embargo, she might be deterred from attacking the Netherlands Indies by a realization that, as indicated by the imposition by the United States of an embargo, American-Japanese relations were progressively deteriorating and that as an outcome thereof a Japanese attack against the Netherlands Indies might carry the United States and Japan into war.

In considering the question of the likelihood of Japanese aggression in the "South Seas", it is to be recalled that in the past it has consistently been Japan's policy to avoid armed conflict with any of the Western powers. It would seem, therefore, that such aggression would probably not occur (a) until and unless Japan becomes convinced that Great Britain and France will be defeated in the present war and (b) unless Japan is convinced that aggression will not cause the United States to adopt measures seriously impairing Japanese interests or unless Japan feels certain that aggression will not place the United States in such position that it will be eventually forced by circumstances to consider that armed conflict with Japan might be inevitable.

The possibility that circumstances might so develop as to increase the likelihood of Japanese expansion southward raises the question whether the present policy of the United States toward Japan should be modified in any way. Present American policy in the Far East is the outgrowth of belief in a number of fundamental and traditional principles with particular reference at this time to the application of those principles to the situation in China. It would, of course, be a matter for regret if adherence by the United States to the policy of continuing to support the principles to which this country is committed should result in the taking by Japan of any forthright action which might adversely affect the interests of other powers, such as the effecting by Japan of a *rapprochement* with the Soviet Union or the seizure of the Netherlands East Indies. The possibilities of Japan

* For additional correspondence on this subject, see pp. 475 ff.

taking such action, however, would not seem to be sufficient warrant for the United States to compromise on matters of principle or to abandon a policy which in its essentials is designed in the long run to demonstrate to Japan that that country cannot with impunity continue to violate those principles for her own advantage and to the disadvantage of other powers. The question is a long-range question. The chief hope that the Government and people of the United States can entertain that the world will in general some day return to a sane and orderly procedure of international intercourse based on principles of justice and fair dealing between and among nations is that the foreign policy of the United States, by adhering consistently and continuously to the fundamental principles to which we are committed and in which we believe, can exert its influence to bring about a desired order out of the present international disorder. It follows, therefore, that surrender or compromise of those principles in any given case would act merely as the breaking of a link in a chain which must depend for its strength as a whole upon the strength of its individual component parts.

UNDECLARED WAR BETWEEN JAPAN AND CHINA

POLITICAL AND MILITARY DEVELOPMENTS¹

893.00/14294 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 2, 1939—9 a. m.

[Received January 2—8 a. m.]

2. Semiofficial Central News in release dated January 1, midnight, stated that:

“Wang Ching Wei, Deputy Tsungtsai² of the Kuomintang, was expelled for life from the party and deprived of all his posts according to a decision reached at an emergency meeting of the standing committee of the Central Executive Committee of the Kuomintang held today. The decision was taken on the ground of Wang’s desertion of the important post entrusted to him and his betrayal of the public confidence placed in him amidst the critical period of the war of resistance and his issuance of a statement in Hong Kong on December 29 suing for peace with Japan on the basis of Premier Konoye’s declaration³—in conclusion the decision emphatically declared that the national policy shall be based on Generalissimo’s⁴ speech of December 26⁵ and urged the entire people to work in unison accordingly for the fulfillment of the mission of national liberation and reconstruction along the lines of Three People[s] Principles.”

Repeated to Peiping and to Shanghai for Tokyo by mail.

PECK

893.01 Provisional/182 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, January 10, 1939—8 p. m.

[Received January 11—7 a. m.]

17. Following statement was issued here this afternoon at 5 o’clock by the “United Council of the Government of the Republic of China”.

¹ Continued from *Foreign Relations*, 1938, vol. III, pp.1-441.

² Leader.

³ For text of declaration by the Japanese Prime Minister, see *Foreign Relations*, Japan, 1931-1941, vol. I, p. 482.

⁴ Chiang Kai-shek, leader (Director General) of the Kuomintang; Chairman, People’s Political Council.

⁵ For a report on this speech, see telegram No. 622, December 27, 1938, 10 a. m., from the Chargé in China, *Foreign Relations*, 1938, vol. III, p. 436.

“There have been reports to the effect that the Kuomintang-Communist faction, which has barely maintained its existence by taking refuge in a remote corner of China, has concluded loan agreements with Great Britain and the United States for the purpose of obtaining military supplies.

Having explicitly declared in its first manifesto that it would not recognize contracts of this kind, the Provisional Government of the Republic of China has rigidly observed this principle since its founding a year ago and is still maintaining vigilance in this respect.

The United Council of the Government of the Republic of China takes this occasion of reaffirming that it would never recognize [the validity?] of the contracts of this kind concluded by the Kuomintang-Communist faction with whatever third parties.

The termination of hostilities and restoration of peace between China and Japan as well as the campaign for driving out communism and bringing about the downfall of the Chiang Kai Shek regime are the firmly fixed aims of the people of East Asia and at the same time represent the main current of the public opinion in China since they are the things about which the people in this country are more concerned.

Great Britain and the United States of America are the two countries which have for long been noted for their knowledge about the situation in China but this time we are unable to understand why these two countries should have failed to take the actual situation into their consideration. It is beyond our comprehension in that England and America should have concluded loans with the Kuomintang-Communist factions despite the miserable strait to which it has been driven with the possible consequence of unnecessarily prolonging the hostilities in China.

England, America and other western countries may be still under the impression that the Kuomintang Government is the government of China and is recognized as such by the people of China. But the fact is that the Kuomintang Government has long since forfeited what confidence the people have placed in it by its maladministration for over 10 years in the past, while the participation of the Communists' elements into it has made it impossible to command the respect and recognition of the people. Furthermore, Chiang Kai Shek, usurping power for many years, has been unable to understand the true welfare of East Asia and, by his selfishness and obstinacy, has plunged the country into irretrievable path. We simply can find no words to describe the miserable state into which Chiang Kai Shek has thrown the country.

The feeling of the majority of people in China is as described above and still England and America, failing to understand this new situation, are trying to disregard the hopes of the entire Chinese people in seeking the favor of a few individuals. It is very likely that if this is the cause the people in China will come to regard the countries as cursed enemies for a long time to come.

We desire solemnly to point out at this opportunity that the people of China would take no responsibility whatever in future for loans of this kind, that we are absolutely unable to recognize whatever concessions that the Chiang Kai Shek regime might have or may grant in exchange for the loans and that the United Council of the Govern-

ment of the Republic of China would be compelled to take whatever step that may be deemed necessary against the movements of Communists that the Kuomintang-Communist faction may try to make as compensation for the grant of loans."

Repeated to Chungking, by mail to Tokyo.

LOCKHART

793.94/14603 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, January 12, 1939—[6] p. m.

[Received January 12—4: 23 p. m.]

25. 1. Following is a summary of comments made to an officer of the Embassy by Fukuoka, Domei correspondent from Tokyo, who has been making a tour of occupied areas including Canton, Hankow, Shanghai, Peiping and who purports to have had numerous conversations with high Japanese military and civil officials at these places.

2. The Yangtze will probably be opened soon to commercial navigation as far as Wuhu. The reason for its continued closure has not been a desire to monopolize all trade, which the Japanese know could not be accomplished, but to prevent foreign shipping and other firms from acquiring the bulk of the trade for themselves during a period when Japanese commercial vessels are commandeered for military purposes and are not available for purely commercial purposes. Even the reactionary Japanese military present policy of excluding foreign trade is unprofitable; what Japan has done there was to "export" a large number of Japanese civilians to places such as Nanking and now finds that it must export food and clothing to keep them alive; this is not expanding Japanese trade and is not profitable.

3. General Kita⁶ is no longer strongly opposed to Doihara's⁷ plan for a "federal" government headed by Wu Pei Fu⁸ but the Japanese have come to realize that Wu is too old-fashioned to be of great use, his name means little to the people any more, and probably means nothing to the people in Central China. One reason why plans of this sort have not succeeded is because of disagreement among interested Japanese. There is too much "spot psychology" among Japanese military leaders in China; i. e., the commander in Peiping insists on going his own way and does not always take kindly to advice from Tokyo. This is true in Hankow, Canton and Shanghai and prevents adoption of policies originated in Tokyo where the military and civil

⁶ Japanese Director of Asia Affairs Board, Peiping.

⁷ Japanese General, formerly in charge of special missions in China.

⁸ Retired Chinese Marshal at Peiping.

officials have achieved a fair amount of unity of purpose any [and?] agreement as to ways and means.

4. The restrictions against the British and French Concessions at Tientsin are evidence of this "spot psychology". They are much more an expression of the wishes of the local Japanese military than of the Government in Tokyo which has tried to be conciliatory with foreign powers and will undoubtedly continue as much as it can a conciliatory policy now that the Home Minister Suetsugu has been eliminated from the Cabinet.

5. If Wang Ching Wei's defection was "by connivance with Japanese" it would be most unwise for the Japanese to attempt to set him up as the head of a government in Nanking or elsewhere in the occupied areas. If Wang were to be of practical use in the cause of peace he should have been left in Chungking to influence his colleagues in the party and Government in that direction. In occupied territories he would be merely a traitor and useless. The best thing for him to do now is to go abroad for a while.

6. Repeated to Chungking, Nanking, Shanghai. By mail to Tokyo.

LOCKHART

793.94/14628 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 20, 1939—9 a. m.

[Received January 20—7 a. m.]

44. In conversations with foreign military observers the Embassy has been impressed with their feeling that the Chinese soldier can hardly be surpassed for heroic endurance of hardship and suffering, indifference to danger and loyal obedience to orders but that Chinese officers, especially those in the higher ranks, lack both enterprise and cooperative qualities. Such observers find deplorable absence of organization and coordination even in the air service which at present has the most important duties to perform of any branch. On the other hand the newly arrived French Military Attaché has informed me that whereas the French authorities in Indo-China told him that the Chinese Government was in a chaotic condition bordering on anarchy he had been agreeably surprised to find them organized and operating efficiently.

While he felt discouraged at the lack of [team?] work in the Chinese military set up and, as do other Military Attachés, the strange reluctance of high Chinese military authorities to permit any foreign insight into their military operations and methods, he felt that the Chinese cause was by no means hopeless because of his conviction that

the Japanese are beginning to feel exhaustion after their enormous efforts, and that while they are approaching within measurable distance of depletion of available man power Chinese human resources are practically unlimited. He had found Chinese soldiers as far as he had observed them well instructed and well equipped while ammunition appeared abundant for an indefinite period.

Repeated to Peiping.

PECK

893.00/14309 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 26, 1939—3 p. m.

[Received January 27—7:30 a. m.]

53. The opening address by General Chiang Kai Shek at the inaugural session of the fifth plenary session of the Central Executive Committee was made public in Chungking on January 26.

Declaring that "the primary mission at present is to recognize the object and the conditions of Japan and ourselves and to be firm in our resolution and in our confidence," General Chiang reiterated his conviction that China must emerge victorious. He asserted that Japan would fail for the following reasons:

- (1) deviation from fixed program in continental policy;
- (2) inability to achieve its aims of "conquest without war", "speedy decisions through quick struggle" and "speedy conclusion of war through early compromise";
- (3) failure of Japanese military strategy through ignorance of own situation, seeking victory through ingenuity and lack and isolation of military forces through deep penetration into China;
- (4) failure of political strategy in consequence of use of corrupt politicians in organization of puppet regimes, isolation of military forces resulting from contradictions in policy; and
- (5) failure to understand the history and the strength of the people of China and especially failure to recognize the special characteristics of the current age and of the development of the revolution in China.

General Chiang called for intensification of efforts in the struggle ahead, declaring "we certainly must not at this stage compromise or yield." General Chiang emphasized "the development of international conditions is undoubtedly toward maintenance of justice and peace. The various democratic states are daily strengthening their preparations and determination to check aggression. We must follow this expanding road of justice and thoroughly carry out our policy of resistance to the end".

General Chiang went on to say that China must overcome Japan through use of national unity, development of agriculture, practice of economy, war time construction and carrying out of San Min Chui.⁹

General Chiang asserted that in the course of hostilities Japan has suffered about 700,000 casualties and incurred war expenditures amounting to yen 9 billion bringing in its wake poverty, dislocation of commerce and industry and social and political disorder. Japan he states had been forced to send twice as many troops to China as originally planned and Japanese casualties had exceeded 31 per cent of her aggregate fighting forces.

General Chiang repeatedly declared that the Chinese nation had never been subdued and alluded to the fall of the Sung and Ming dynasties as the collapse of one family and one dynasty. Referring to the present day national spirit General Chiang said "the National Government of today is a revolutionary government and a government of the people. This revolutionary government will fight for the welfare of the nation because that is the sole reason for its existence. We realize our duty and will not be intimidated. Our duty is to consummate the revolution and carry out the Three People's Principles in defiance of armed aggression. The resistance we have been putting up in a closely knitted and interrelated action sprung from the will, spirit and strength of the Government and the people".

Referring to the economic situation General Chiang declared that hostilities had not seriously impaired the financial structure of China because of China's predominantly agricultural character. Saying there is no want because of good crops last year and the frugal nature of the people, he went on, "I am deeply convinced that wartime economy will not be much of a question".

In comments on Japanese diplomacy General Chiang said Japs had failed in attempting to appease Russia, in endeavoring to woo the friendship of the United States and in trying to avert the forming of a common front among the United States, Great Britain and France. In referring to world unrest, he alleged that the main subterranean trend was toward the maintenance of world faith and peace especially among the European and American democracies who were coping with the crisis with the greatest prudence.

Repeated to Peiping. Peiping mail Tokyo.

PECK

⁹ The Three People's Principles of Sun Yat-sen.

793.94119/499 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, January 31, 1939—5 p. m.

[Received January 31—1: 15 p. m.]

60. Department's [*Embassy's*] 56, January 28, 4 p. m.¹⁰

1. A "Society for Peace and National Salvation" issued yesterday a manifesto signed by the leaders of the Provisional and Reformed Government asking Wu Pei Fu to head a peace movement.

2. Wu Pei Fu received the press before noon today and made an oral statement of which the following is the gist:

Because the people know I have always believed in peace, many, including my friends, have asked me to lead a peace movement. There are three prerequisites to any successful effort to achieve a real peace: real force; a suitable place; and real political power. The place undoubtedly is Peiping. There is no doubt I can show real force. There remains the question of real political power. I have heard that the Japanese Military Headquarters will return real political power to the Chinese. After this is done my aim in making peace and saving the country can be realized.

3. There were no Japanese military officers present when Wu made his statement. Its wording indicates that his negotiations with the Japanese have not yet been concluded. For example he did not admit taking office and failure to be specific on that point lends color to reports from some of his followers that the Japanese have been attempting to force his hand by premature announcements of his agreement to their plans. This view is also supported by his naming Peiping for his headquarters instead of Kaifeng as mentioned in Japanese inspired press announcements, some of which have indicated that he would eventually move from [to?] Kaifeng to assume charge of a new regime there.

4. The implications in the proposed establishment of the commission at Kaifeng "outside the territorial jurisdiction of the Provisional and Reformed Governments" are not yet clear. Some observers consider it an effort at compromise to permit Wu's emergence without weakening those two regimes whose leaders have until recently opposed his emergence. The plan to pacify Honan and Hupeh by winning over guerrillas and Nationalist troops to the Peace Commission is regarded by others as a move designed to permit the Japanese to withdraw large military units from that area with a view to eventual withdrawal of most of their army from China if Wu should succeed. This opinion is based on Wu's original demand of the Japa-

¹⁰ Not printed.

nese (paragraph 3, Embassy's 634 [684?], November 17, 3 p. m.¹¹) that Japanese troops must be withdrawn before he would head a new "central" government.

5. Repeated to Chungking, Shanghai, Tokyo.

LOCKHART

793.94/14657 : Telegram

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

TOKYO, January 31, 1939—midnight.

[Received January 31—9:05 a. m.]

62. At yesterday's meeting of the Budget Committee of the Lower House the Minister of War was asked to comment on the opinion expressed by a private member that Japan's plans for the development of China required that Japanese troops be stationed in China for a long period of time. Pertinent portions of the reply of the Minister are reported to have been as follows:

"Troops may be stationed abroad for various reasons, such as for purposes of national defense, to maintain order or for strategic military operations. I am not at liberty to discuss at length the period over which troops will be maintained, methods, extent, and other such details, but I believe that you may take it that in general troops will be stationed in China for a substantially long period. Accordingly, the army is giving consideration to plans to meet the maintenance of troops on a semi-permanent basis [apparent omission] since the issuance of the official statement of December 22, a rumor has been current that the army intends to withdraw the forces now in Central and South China. This is sheer propaganda. The army has no intention whatever of taking any such action."

By air mail to Shanghai for repetition to Chungking.

GREW

793.94119/500 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 1, 1939—9 a. m.

[Received 10:15 a. m.]

63. Reference Peiping's 48, January 23, 4 p. m., 52, January 25, 4 p. m. and [55,] January 27, 3 p. m.¹²

Financial crisis. In conversation with Drumright¹³ on the afternoon of January 31, Dr. T. T. Li of the Ministry of Foreign Affairs broached the subject of Wu Pei Fu. He stated that Wu has been

¹¹ Not printed.

¹² None printed.

¹³ Everett Francis Drumright, Second Secretary of Embassy.

in touch with the National Government since the commencement of hostilities, that Wu sent a plea to the Nanking authorities as early as September 1937 to assist him in leaving Peiping, that certain unnamed Embassies were thereupon approached to aid in Wu's departure from Peiping, that nothing concrete emerged in response to these *démarches*, that Wu has been under constant heavy pressure from his immediate subordinates and the Japanese to participate in the formation of a new regime in the north, that Wu has no desire to act in such a capacity, and that he has hitherto been able to parry the demands and importunities addressed to him on various pretexts including the setting forth of counter-demands which he felt would not prove acceptable to the Japanese. Dr. Li stated that as late as a month ago he himself had seen a letter from Wu to the Generalissimo.

After reciting the foregoing Dr. Li asked if the American Embassy could do anything to facilitate Wu's departure from Peiping. Drumright replied to Li in noncommittal terms, adding that it was his private opinion that even if it were in the power of the American Embassy to aid in Wu's departure from North China it was not the policy of the American Government to intervene in a matter of this sort. He informed Dr. Li, however, that the matter would be brought to the attention of his superior officer.

If reports from Peiping to the effect that Wu on January 31 told correspondents that he is proceeding to Kaifeng to head a Pacification Commission can be credited, it would appear that he has now committed himself to a policy of cooperating with the Japanese, and that consequently the problem of his departure from Peiping is no longer material.

Repeated to Peiping.

PECK

893.00/14314 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 1, 1939—2 p. m.

[Received February 2—1:30 p. m.]

64. Embassy's 51, January 26, 9 a. m.,¹⁴ and other messages regarding Central Executive Committee meetings.

Dr. T. T. Li of the Chinese Foreign Office stated to an officer of the Embassy on January 31 that in his personal opinion the recent session of the Central Executive Committee is the most important to have been held in recent years. In substantiation of this view he pointed out the large number of members present, the length of the session

¹⁴ Not printed.

and the importance of the resolutions adopted and added that to his knowledge the reports rendered by party leaders and government ministers were lengthy and met with searching inquiries and criticisms on the part of the members. He mentioned that Chiang Kai Shek presided at all save one of the meetings and that at one session Chiang addressed the assembly for 3 consecutive hours. Dr. T. T. Li declared that a strong spirit of harmony pervaded the meetings and in this connection stated that the three cliques formerly existing in the Kuomintang have now disappeared as a result of the death of Hu Han Min and the departure of Wang Ching Wei, leaving Chiang Kai Shek, the third of triad, supreme. He alleged that there was no talk of peace at the meeting and that the atmosphere indicated rather a grim determination to proceed with hostilities at all costs.

Dr. Li said he believed that the resolution for the establishment of a Supreme National Defense Council was the most important and significant of those voted at the session. Alluding to this new organ as a form of "War Council" composed of leading officials of the Kuomintang Government and army and presided over by the Generalissimo, he said that it is designed to unify party governmental and military affairs for the more efficient prosecution of the war. He said that the new body would supplant the Central Political Council which had been inactive during the course of hostilities and that unlike a previous organization of similar designation which proved ineffective largely because Chiang Kai Shek ignored it the Supreme National Defense Council will hereafter serve as the active central organ for the coordination and control of all matters pertaining to the Government and the army.

Referring to the resolution rejecting the admission of members of other parties into the Kuomintang, Dr. Li said it merely reflected a desire of that party to keep its rank and file "pure" in the same sense that the Democrats in the United States would refuse to accept Republicans as members and vice versa, and that it could in no sense be construed as a deflection from the policy of cooperation with the Chinese Communists and other political groups which he said would be continued.

Dr. Li said that contrary to rumors circulating in Chungking he anticipated that no marked changes in government and party personnel would result from the Central Executive Committee meetings. To his knowledge the only change made and not announced was the revival of the post of Secretary General of the Military Affairs Commission to which General Chang Chun will return.

Repeated to Peiping.

793.94119/501: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, February 1, 1939—3 p. m.

[Received 8:12 p. m.]

62. Embassy's 60, January 31, 5 p. m.

1. A retired Chinese official and adherent [of] Wu Pei Fu with whom an officer of the Embassy has friendly personal relations called on the officer this morning. He said Wu had sent him to relate privately what he had actually said yesterday to the press correspondents because the purport of his statement had been vitiated and his position grossly misinterpreted by the local press and by publication of a written statement attributed to him which he had not made nor approved. (A translation of this statement will be transmitted in a separate telegram.)¹⁵

2. The caller's account of the oral statement coincided with that reported in the Embassy's telegram under reference. He repudiated press reports that Wu had (a) definitely accepted office, (b) denounced Chiang Kai Shek, (c) proposed to fight National Government troops, and (d) intended to suppress Chinese Communist troops. He said that the Marshal positively had not accepted any political or military office and did not intend to accept any such office unless or until the Japanese met his conditions particularly in respect to the withdrawal of their troops. Wu's position on this question was that "the guest (the Japanese) cannot usurp the host's (China) peace [place] as head of the host's house" and he would not associate himself with any Chinese Government that did not have full "political power". If his conditions were met and he should head the projected pacification commission, his army would work to pacify Honan, Hupeh and other areas. By pacify he meant clearing the areas of bandits and not undertaking a campaign against Chinese troops.

3. Incidentally he said that Wu had always been grateful for American and British friendship to China and had noted with pleasure the recent expression of that friendship in the form of the recent American and British credits.

4. Repeated to Chungking, Shanghai, Tokyo.

LOCKHART

¹⁵ Telegram No. 63, February 1, 4 p. m., not printed.

793.94/14661 : Telegram

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

TOKYO, February 1, 1939—5 p. m.
[Received February 1—6:40 a. m.]

63. The following reply is reported to have been made yesterday by the Minister for Foreign Affairs at a meeting of the Budget Committee of the Lower House answering a question put by a member with regard to the holding in Tokyo of an international conference to discuss the situation in China:

“The holding in Tokyo of an international conference similar to those which at one time after the great war so frequently occurred will require very careful thought. The question definitely arises whether just solutions to problems can be found by delegates of a number of countries with varying degrees of interests in the problems under discussion meeting in conference. That is, I think, made clear by the examples set by the conference held after the European war. So far as Japan is concerned, we believe that more fruitful results can be obtained by carrying on conversations individually with the other countries concerned than by attending an international conference. My personal feeling is, therefore, one of considerable doubt whether a conference held in Tokyo for the purpose of clarifying the situation in the Far East would achieve that purpose”.

Cipher text by air mail to Peiping for repetition to Chungking.

GREW

793.94/14666 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 2, 1939—9 a. m.
[Received 1:30 p. m.]

66. Embassy's 60, January 30, noon.¹⁶ An official of the Chinese Foreign Office on February 1 confirmed to a member of the Embassy staff that Wang Ching Wei had been issued a passport at the specific instructions of General Chiang Kai Shek. He interpreted this action on the part of the Generalissimo (1) as an effort to maintain the friendly relations that have hitherto existed between the two leaders and (2) as a move to facilitate Wang Ching Wei's departure for Europe in order to lessen the chances of the latter's possible alignment with the Japanese or Japanese sponsored regimes in China. This official expressed the view however that Wang Ching Wei would not participate in any Japanese movement for the formation of new governments in the occupied areas.

¹⁶ Not printed.

Peng Shou Pei, Vice Minister of Communications and a former close adherent of Wang Ching Wei, has on two occasions told members of the Embassy that Wang positively has no intention of working with the Japanese or their puppet organizations.

Repeated to Peiping.

PECK

793.94/14665 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 2, 1939—midnight.

[Received February 2—1:30 p. m.]

68. Embassy's 619, December 24, 3 p. m.¹⁷ In a conversation on February 1, a German military adviser who has remained with the Generalissimo stated to a member of the Embassy that the Chinese Army is still undergoing reorganization and replenishment. This informant declared he believed that the Chinese Army is now prepared for at least another year of hostilities and expressed confidence that if supplied with war materials from abroad the Chinese could continue to wage war indefinitely.

Referring to the question of possible Japanese military movements the informant said that while he is cognizant of rumors of an imminent Japanese push into Shensi, he believes the Japanese will first strike at Kwangsi for the following reasons: (1) the belief that a drive in the south will enable the Japanese Navy to fulfill its desire to participate in operations and that such an advance will be possible without undue foreign risk and (2) the belief that a drive on Sian and toward Chengtu would amount to the "turning of the back" of the Japanese Army to Soviet Russia, a position in which he feels that the Japanese Army would be reluctant to place itself owing to the parlous state of Japanese-Russian relations and the shifting international situation.

The informant stated that Russian military advisers in China now number about 200 and that they are serving in various advisory capacities with the Chinese Army.

Repeated to Peiping.

PECK

¹⁷ *Foreign Relations*, 1938, vol. III, p. 434.

893.00/14341

*The Chargé in China (Peck) to the Secretary of State*¹⁸

[Extracts]

No. 1913

PEIPING, February 6, 1939.

[Received March 1.]

SIR: I have the honor to refer to the Embassy's despatch No. 1541, February 7, 1938,¹⁹ reviewing significant developments in China during 1937, and to submit a review for 1938.

Paradoxically, 1938 was a year of disappointment to the Japanese notwithstanding far-reaching military successes. It was a year of widespread, heavy and costly fighting for which they had not originally planned. Because the fall of Nanking (December 13, 1937) did not, as they expected, result in collapse of Chinese military and political resistance, circumstances impelled them to attempt to (1) drive on to Hankow, (2) capture Canton and cut the main channel of Chinese supplies, and (3) cut the channel of supplies from Soviet Russia through Sinkiang and Shensi. The Hankow campaign succeeded only after uncalculated delays and tremendous cost; while the Canton campaign was executed at negligible cost and deprived the Chinese of their main supply channel, it did not bring the Hankow-Canton Railway under Japanese control; and the attempt to penetrate Shensi did not succeed. Nor did the fall of Hankow achieve the objective of smashing the Chinese armies and bringing about Chinese military and political collapse.

Japanese economic and political plans failed to keep pace with military successes. The Chinese Government did not sue for peace. Puppet regimes set up by the Japanese failed to exercise authority beyond places under military control; they lacked suitable Chinese personnel, and establishment of a "central" government was not consummated. Grandiose economic schemes remained in general in embryonic state, partly because Japanese territorial control was restricted, and partly because of lack of finances. Japan's relations with the United States, Great Britain and France deteriorated because of continuing Japanese interference with the interests of these powers, relations with Soviet Russia worsened, and some observers predicted that international complications might become Japan's most serious problem. From this point of view Japan was like a man riding a tiger and unable to dismount; her military successes were like a snowball rolling downhill and gathering more difficulties the farther it rolled. Statements by Japanese spokesmen at the end of the year that "Japan is fighting for her very existence" carried a new note of sincerity.

¹⁸ This report was drafted by George Acheson, Jr., Second Secretary of Embassy.

¹⁹ Not printed.

On the other hand, although Chinese long-range defense plans assumed that Japan would occupy most of North China, the coast ports and the Yangtze Valley to Hankow, developments in 1938 left the National Government with tangible resources insufficient for much more than six or eight months, with sources of supplies greatly curtailed, with great diminution of revenues, and with its political and military establishments everywhere subject to aerial attack.

Military and political aspects of the Chinese guerrilla movement:

Approximately 1,000,000 Chinese guerrillas (units of the 8th Route Army sent behind the Japanese lines, newly recruited units forming allied so-called Communist armies, and reorganized bands of defeated Chinese soldiers) carried on during 1938 sporadic mobile warfare, harassed Japanese lines of communications and isolated garrisons, and operated politically among the peasant population. They engaged in hundreds of skirmishes over widespread areas (the Japanese made three major drives in Shansi and at the end of the year were retaking towns which they had twice before captured from guerrillas and regulars); they operated within a few miles of Japanese military bases such as Shanghai, Wuhu, Nanking and Peiping, attacked Hangchow, entered Tsinan, Chefoo, Paoting, Paotou; they made innumerable attacks upon Japanese-controlled railways which resulted in temporary disruption of services. Although they were in many ways ineffective (that is, they avoided large battles as a matter of military policy and did not hold towns against strong attack and failed to destroy railways), their methods of warfare put a great strain upon Japanese lines of communication, railway guards and scattered garrisons, and generally prevented the Japanese from consolidating their positions over a vast territory. Their ineffectiveness was due chiefly to lack of ammunition and explosives, lack of training and, probably, the characteristic Chinese lack of will to attack as contrasted with the highly developed Chinese will to resist.

The final measure of the guerrilla movement as a political force lay, at the close of the year, still in the future. Some observers believed that it would die gradually or be eventually "liquidated" by the Japanese. Others considered that it would not only expand militarily but would develop such widespread popular support as to render ineffective Japanese military conquest and defeat Japanese political ends. (The term "Communist" as applied to the 8th Route Army and allied units was a misnomer and was the strongest enemy of the movement among the Chinese middle class, although actually the Chinese Communist Party's program was not communistic in the Marxian sense, the principle of class struggle for which there is practically no foundation in democratic China was abandoned in

1937, and the main feature of leftist socialism was agrarian reform not differing greatly from the Kuomintang plan.) Among the poorer classes, Japanese actions contributed to the growth of the movement. Japanese atrocities on the non-combatant civil population (bombings, burning of villages, rape of women and shooting of men and children) gained the guerrillas many recruits among survivors. The ironic result was that the Japanese, professedly fighting so-called communism, were, to a limited extent, actually creating that which they were attempting to destroy.

Respectfully yours,

For the Chargé d'Affaires a. i. :

FRANK P. LOCKHART
Counselor of Embassy

793.94119/507 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, February 13, 1939—noon.
[Received February 13—6:30 a. m.]

79. 1. Fisher of The United Press has informed an officer of the Embassy that Wang Keh Min²⁰ made to him during a private interview the following remarks not for publication :

(a) China must continue fighting Japan because the longer China fights the better will be the peace terms;

(b) there is at present in Japan no one man or group of men strong enough to stop the war and the same is true in China;

(c) every one in Japan nevertheless wants a settlement of the hostilities but the Japanese idea is different from mine which is that we must retain the right to decide our own affairs;

(d) it will be quite some time before a settlement occurs but I hope that one will [be] effected by the end of this year;

(e) during my 14 months in office things have not developed as I expected because the Japanese keep postponing the fulfillment of their promises to me;

(f) the political situation in North China is not the key to any settlement but is a side issue which may aid in reaching a settlement;

(g) the Japanese are just beginning to try to pacify the occupied areas district by district;

(h) if a 6 months' effort at pacification succeeds it will complicate the situation and postpone a settlement because attainment of peace can come only through continuing Japanese failure and resultant increasing anxiety for peace;

(i) I do not expect that the Japanese will meet with too much success in their efforts to pacify the interior;

²⁰ Chairman, Executive Committee of the "Provisional Government" at Peiping.

(j) originally Japanese plans for North and Central China were separate but now they are concentrating on stabilizing this area because it is the most important to them.

2. For publication Wang said:

"The most important accomplishment of the Provisional Government in the past year is that there has been no additional loss or suffering on the part of the people and my personal view is that the lot of the people has improved at least to some extent. A most encouraging factor is that my Government has been able to speak in behalf of the Chinese and make its voice heard and the Japanese are at least to some extent taking into consideration the Chinese point of view. I believe the majority of people in Japan and China want a settlement of the hostilities. We desire an honorable peace".

3. Wang's stubbornness and argumentativeness in dealing with his Japanese masters has won him some respect and while he is not considered a man of much ability and renders public lip service to the Japanese it is believed that he has striven to maintain the Chinese position. His statements in paragraph 1 appear to be characteristic of his attitude and of that of most of the puppet officials of the Provisional Government.

4. Repeated to Chungking. Code text by mail to Tokyo.

LOCKHART

793.94/14702 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, February 14, 1939—3 p. m.
[Received February 14—7 a. m.]

83. Embassy's 18, January 11, noon.²¹

1. The Japanese claim to have cleared southwestern Shansi of guerrillas and troops formerly under Yen Hsi Shan, but whether their occupation will be permanent or only temporary as in the past remains to be seen. Continuing attempts to cross the Yellow River from Fenglingtu, Shansi, to Tungkuan, Honan, have failed as have attempts to cross in Shensi from southwest Shansi near Yumenkou. There have been repeated artillery duels at the Tungkuan crossing and, according to reports from Chinese circles, that the defenders of Szechuan have been reinforced by heavy artillery and gunners from Soviet Russia. As part of their campaign to cut the route of Chinese supplies from Soviet Russia via Sinkiang and Shensi Japanese planes have been bombing Sian, Lanchow and other places. Air raids against Tungkuan have reportedly been comparatively unsuccessful because of high range Russian antiaircraft guns there.

²¹ Not printed.

2. While the Japanese have for several months kept East Hopei clear of guerrillas there appears to have been no diminution of guerrilla activities in South and Central Hopei and northern Honan. According to a foreign traveller, the Pinghan Railway from Chengchow, Honan, south to Kwangshui, Hupeh, (a distance of 110 miles) has been entirely removed by Chinese, the road bed ploughed into fields and the rails and sleepers used to extend the Lunghai westward. A foreigner coming recently from Paoting states that guerrilla attacks upon the south suburb of that city continue at night as do attacks upon the Pinghan Railway especially south of Paoting. He states that the Japanese troops at Paoting are clearing the western territory of Chinese, presumably to accommodate an increased garrison and to prepare for the projected establishment there of the puppet Hopei Provincial Government.

3. There have been no attacks on the Peining Railway since January 11 (Embassy's 26, January 13, 9 a. m., and 23, January 12, noon,²² paragraph 4).

Repeated to Chungking. Text by mail to Tokyo.

LOCKHART

893.00/14335 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 22, 1939—10 a. m.

[Received February 22—7 a. m.]

127. Reference Embassy's No. 96, February 11, 6 p. m.²³ and other telegrams on the same subject.

The third session of the People's Political Council adjourned February 21 after what is reported to have been the most harmonious session yet held. A digest of Chiang Kai Shek's closing address will be telegraphed later.^{23a}

According to information from a reliable source, perhaps the most significant conclusion to be drawn from the meetings is that an overwhelming decision was reached to realize the object of establishing a democratic form of government in China and conversely to reject the proposals of a small minority for the creation of a totalitarian regime. It is not unlikely that the Generalissimo played a major part in bringing about this decision.

Repeated to Peiping.

PECK

²² Neither printed.

²³ Not printed.

^{23a} Telegram No. 135, February 25, 10 a. m., from the Chargé in China, not printed.

898.00/14336 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 23, 1939—3 p. m.

[Received February 23—2:02 p. m.]

129. An American who recently passed through Chungking after spending 5 months at Liaohsien in southeastern Shansi related the following impressions to the local correspondent of the *New York Times*:

He found the Chinese Communists in control in southeastern Shansi and the area garrisoned by the Eighth Route Army under Chu Teh and Peng Teh Huai. He received the impression that the area was well organized both in a political and military sense (the Japanese did not penetrate this district from the spring of 1938 to January, 1939). He was particularly impressed with the type of soldier now found in the Eighth Route Army, his spirit and discipline and adequacy of his military equipment. He observed that there was no shortage of essential arms and ammunition which are furnished by the Chinese Government and not by Soviet Russia. He saw no Russian at Liaohsien, headquarters [of] Chu Teh for several months.

Informant stated that he left Liaohsien on January 27, evacuating the city in company with the Eighth Route Army and the entire population on the approach of a Japanese army unit from the north. He was informed later that the Japanese entered Liaohsien about January 30 but withdrew northward after a brief occupation, meeting with strong flank attacks and suffering heavy losses from the Eighth Route Army which brought up 8,000 reinforcements from south Shansi for counter-operations. He learned that General Wei Li Hwang, Central Government Commander for Shansi, is strongly standing in the area just north of the Yellow River and that Wei has won several noteworthy victories. He asserted that General Yen Hsi Shan is still leading his provincial troops in southwestern Shansi and to be effective to some extent in harassing the Japanese from his mountain bases.

The American correspondent of the United Press at Chungking returned yesterday from a month's trip to Sian and Yen-an. He professed to perceive a marked lack of cooperation between the authorities of the National Government and the Chinese Communists in the northwest. He saw no Soviet Russians at Yen-an, but observed one transport corps of 125 Russians at Sian.

This correspondent obtained an interview with Mao Tse Tung at Yen-an in which the latter is reported to have asserted that if the National Government does not take steps soon to adopt the measures so

successfully carried out by the Communists in the organization of the Shansi, Chahar, and Hopei frontier government it will find it necessary to fall back to the Himalaya Mountains.

Repeated to Peiping.

PECK

793.94119/509 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, February 24, 1939—2 p. m.

[Received February 24—10:30 a. m.]

97. A responsible American educator well known to the Department²⁴ informed me yesterday that Wang Keh Min sent for him February 22 and informed him that General Kita returned from Tokyo a few days ago to which place he had gone (allegedly) to discuss possible peace terms with Tokyo authorities. Kita informed Wang Keh Min, according to my informant, that the Japanese Government now has a plan which contemplates that Wang Ching Wei shall proceed to Nanking and there establish a new Kuomintang Government; that North China will continue to have Japanese garrisons and that this area will be reserved for economic development; that troops in South and Central China will be either completely removed or reduced as rapidly as possible; that before definitely advancing the proposal to the Chinese the American and British Governments will be consulted and their approval sought; that the hope of success of the plan rests somewhat on the Japanese belief that Wang Ching Wei has not completely broken with Chiang Kai Shek and that the former might be the means of conciliating the latter. Kita predicts that about 2 months will be required before the plan can be developed to the point where it can be seriously advanced. If there is actually any warrant for the optimism apparently possessed by Kita, it was not made clear by my informant. The chief significance (if the information which Kita has given Wang Keh Min is correct) appears to be that the Japanese Government now seems willing to consult the American and British Governments and seek their approval for a plan to end hostilities. This appears to be wholly at variance with the attitude previously assumed by the Japanese Government.

The above is submitted for what it may be worth. On inquiring of my informant whether he had any reason to suspect that Wang Keh Min had informed him of the above, at the instance of Kita, with a

²⁴ J. Leighton Stuart, president of Yenching University, Peiping.

view to its being brought to the attention of the Department as a preliminary move, he answered in the negative.

Repeated to Chungking, code text to Tokyo.

LOCKHART

893.00/14340 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 1, 1939—10 a. m.

[Received March 1—7 a. m.]

144. Further reference to the Embassy's 129, February 23, 1 [3] p. m., the Embassy now learns direct from John Foster, the American informant mentioned therein, that the number of regular and irregular (guerrilla) troops in and under the control of the Eighth Route Army in North China at present totals about 320,000. The foregoing figure excludes self-defense units which are to be found in almost every village of the Chinese occupied areas of Shansi and Hopei and whose sole function is to engage in the defense of the villages. Informant was unable to state proportions of regulars and irregulars but gave it as his opinion that the strength of the three regular divisions comprising the Eighth Route Army has been greatly expanded from the reported pre-war strength of 15,000 men in each division.

The informant also related that a new border government modeled on that in the Wutai area is now in the process of being established by the Chinese Communists in southeastern Shansi, southwestern Hopei and northwestern Honan.

Contrary to the view expressed in the penultimate paragraph of Embassy's 129, February 23, 1 [3] p. m., the informant was decidedly of the opinion that the Chinese Communists are exerting every means to preserve the United Front, that they have a feeling of great respect for the Generalissimo, that the main communist criticism is at present directed toward certain reputed fascist and peace elements in the Kuomintang, and that the propagation of communist political policy in North China is being subordinated to the mobilization of the populace and the fanning of the anti-Japanese spirit among them.

Repeated to Peiping.

PECK

793.94/14770 : Telegram

*The Consul General at Hong Kong (Southard) to the Secretary
of State*

HONG KONG, March 3, 1939—10 a. m.

[Received 12:15 p. m.]

77. Following is a paraphrase of a message from the American Consul at Saigon: It is reliably reported that the French authorities in Indo-China have stationed troops fully equipped for active service at all points of strategic importance along the coast between Moncay and Haiphong due to the fact that two Japanese aircraft carriers and a number of other war vessels are understood to have been observed in close proximity to the territorial waters of French Indo-China near Moncay about February 18.

Reliable sources state that complete plans for dealing with an influx of refugees in the area adjacent to Langson and Caobang have been made by the frontier garrisons in the event of a Japanese offensive into Kwangsi. The Indo-China-Kwangsi frontier will be closed only in the event that it becomes necessary to stop the entry of more refugees than can be dealt with under existing plans or to avoid friction and possible clashes with the Japanese.

The firm having the contract for building the bridges for the Nanning Railroad has withdrawn its European staff from China for an indefinite time. This action was taken because it was considered inadvisable to continue building bridges which might be bombed by the Japanese.

Chinese Government representatives in Indo-China have been advised confidentially and officially that all merchandise including munitions will be given unrestricted transit through Indo-China. Cheng Ming Pan, an official of the Central Trust, is the source of the foregoing statement. Previously Government General had advised this Consulate by telegram in reference to request for information regarding transit tax that in theory there is no transit tax on war material shipped through Indo-China for the Chinese Government but that in practice such shipments were forbidden. The information had been requested on behalf of shippers of trucks in transit. Report that Wang Ching Wei and Doihara were together at Tamdao has been confirmed, negotiations are said to have resulted negatively and Doihara has left Indo-China. Information regarding present whereabouts of Wang Ching Wei thus far unobtainable. Reliably informed that China National Aviation Corporation has been granted authority to establish Chungking-Hanoi service.

Repeated to Chungking, Yunnanfu.

SOUTHARD

793.94/14790 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 8, 1939—10 a. m.

[Received March 8—6 a. m.]

158. In a radio broadcast to the nation last night the Chinese Foreign Minister²⁵ spoke at length on the subject of the so-called "new order in East Asia". In the course of his address Dr. Wang declared:

"The so-called new order for East Asia is, in fact, merely another name for the destruction of China's political independence and territorial integrity, complete domination of the Pacific by Japan, and the elimination of legitimate American and European interests in the Far East. It is absolutely irreconcilable with the letter and spirit of the Nine Power Treaty concluded at Washington in 1922²⁶ for the purpose of safeguarding the peace of the Pacific".

Saying that the Nine Power Treaty embodies the two great principles of respect for China's sovereignty and independence, and her territorial and administrative integrity, and the Open Door and equal opportunity, Dr. Wang asserted:

"Japan is one of the signatories of this international treaty, but by her action in the northeastern provinces, and by her armed invasion of North, Central and South China, she has violated the first fundamental principle of this treaty. Similarly, by her economic activities in the northeast, in North and Central China, she has definitely closed the Open Door to the detriment of the legitimate interests of third powers".

Dr. Wang also stressed his belief in the importance of the Nine Power Treaty as the foundation of peace and stability in the Pacific area and added that disregard of this treaty and of the League Covenant²⁷ and the Pact of Paris²⁸ had brought down on Japan the moral censure of the entire world. In this relation he expressed the hope that the day would not be far off when Japan would be confronted with actual reprisals by those powers whose interests she had been seeking to destroy.

Repeated to Peiping for mailing Tokyo.

PECK

²⁵ Wang Chung-hui.

²⁶ *Foreign Relations*, 1922, vol. I, p. 276.

²⁷ *Foreign Relations*, The Paris Peace Conference, 1919, vol. XIII, p. 69.

²⁸ *Foreign Relations*, 1923, vol. I, p. 153.

894.34/237: Telegram

*The Ambassador in Japan (Grew) to the Secretary of State*TOKYO, March 8, 1939—7 p. m.
[Received March 8—10: 22 a. m.]

125. Subject, Japanese naval estimates.

1. The fourth naval replenishment program presented to the Diet on March 6 amounts to yen 1,674,142,000 and breaks down as follows: For warship construction yen 1,205,780,000; for perfection of marine and land equipment, which is assumed to be for naval bases and dockyards yen 188,321,000; for expansion of air force yen 300,041,000. The total sum amounts to an increase of nearly 50% over the third replenishment program (to be extended from 1937 to 1942) which amounted to yen 1,166,708,971 and will be applied over a period of from 5 to 6 years beginning with the fiscal year 1939-40.

2. Further comparison with the third replenishment program reveals that the fourth replenishment program provides for an increase of nearly 50% in warship construction; over 100% in naval bases and dockyards; and nearly 300% in the expansion of the Air Force. From the published figures it appears that no provision is made for refitting and modernization or for replenishment of naval stores; these items, it is assumed, will be taken care of under the third replenishment program which runs concurrently for 2 more years.

3. It is of course idle to speculate upon what these figures mean in the field of actual construction of warships. However, assuming the costs per ton of construction to be roughly twice as great as the estimated figures for 1933 (which were given out at that time when the second replenishment program was under consideration by the Diet) the present budget figures would permit for example the construction of two battleships, four cruisers, two aircraft carriers, eight destroyers and submarines. It must be reemphasized that the foregoing program of construction is wholly speculative and illustrative in character as Japanese naval plans are guarded with a secrecy remarkable in its effectiveness.

4. It can however be stated with some confidence—and the following represents the consensus of the opinion of the Naval Attachés in Tokyo—that the fourth replenishment program would permit construction at least equal to, if not greater than, that possible under the third replenishment program. This takes into consideration the considerable increase in the costs of construction (materials and wages) since 1937.

5. The Naval Attaché concurs in the foregoing and requests that a copy of this telegram be furnished to the Navy Department.

GREW

793.94/14927

*The Consul General at Hankow (Josselyn) to the Chargé in China
(Peck)*²⁹

No. 593

HANKOW, March 9, 1939.

SIR: As describing the environment in which Americans are living in Kiukiang, a town representative of the many in this district occupied by the Japanese armed forces, I have the honor to submit the following information supplementary to the telegrams sent in mid-February by vice consul John Davies, Jr. from the U. S. S. *Oahu* at Kiukiang.

General Conditions:

Kiukiang was practically intact city when abandoned by the Chinese in July 1938. It had suffered only slightly from Japanese aerial bombing and Chinese demolition. The first Japanese men-of-war to appear off Kiukiang subjected the town to a senseless and wasteful shelling. That accounted for a certain amount of destruction. With the arrival of Japanese troops and naval landing parties there began the thorough-going vandalism and looting which has continued to the present.

Houses were broken into, articles of value pillaged and other objects smashed. An American resident of Kiukiang stated that the streets of the town, well known for its ceramics, were littered after Japanese occupation with broken china-ware. The loot was shipped down river in vessels which had discharged their cargoes of troops and military supplies. With the advent of autumn, the Japanese began demolishing houses to obtain wood for fires. This destruction was carried on indiscriminately so that in February large sections of the city were badly wrecked.

The native population, with the exception of a few thousand refugees who sought shelter in foreign missions, fled before the approach of the Japanese. Shortly after their arrival, the Japanese sought to evict the refugees and move them to a refugee zone established in the outskirts of the city. The night before the transfer was to be made, it was necessary for the American doctor at the Water of Life Hospital to post five men at the hospital well to prevent women refugees from committing suicide.

The main part of the city was, when visited by Mr. Davies in January and again in February, reserved for the Japanese. The only Chinese to be seen on the streets were a few hawkers with special passes and girls impressed as waitresses in six or eight drab little bars and cafes. Very few Japanese civilians were visible. The fronts of

²⁹ Copy transmitted to the Department by the Consul General at Hankow in his covering despatch No. 571, March 9; received April 26.

most shops and homes not demolished were broken in and the buildings used as storehouses, garages or stables. Soldiers were seen warming themselves over fires built on the dirt floors of vacant houses and fed by furniture, torn-up floorboards and other structural parts of buildings. There was a heavy traffic of military trucks and staff cars. Sentries were posted at the entrance to billets and at important street corners. On the water front gangs of Chinese coolies under Japanese supervision unloaded military supplies from barges. Oil and other supplies were stacked high along the foreshore.

Relations Between Japanese and Native Population:

An upper middle class Chinese who had assumed an important position in the Japanese-inspired Kiukiang local regime confessed to an American there that he bitterly regretted his association with the puppet government. He said that he had believed that he was aligning himself with a permanent and stabilizing force. Association with the Japanese military and Army Special Service Section, he declared, had disabused him of those beliefs. "How can a dissolute organization like the Japanese army", he asked, "be expected to hold and govern 400 million people?"

As an example of the experiences of thousands of Chinese in the country-side surrounding Kiukiang, there was described to Mr. Davies by an American the recent history of a village woman who had sought refuge in an American mission. In the autumn this woman lost two nephews, young peasants, who were machine-gunned and killed by Japanese aircraft while crossing a small river by ferry boat. Then her son was taken away as a supply-bearer by a passing detachment of Japanese troops. Sometime later her home was burned by a Japanese punitive expedition. Finally, Japanese soldiers discovered one day the hiding place of her three nieces. Two of the young women succeeded in reaching a nearby pond before being caught, and there committed suicide through drowning. The third was caught but, because she resisted assault, was killed, disemboweled and her entrails strewn on the road.

It is such manifestations of violent lechery and sadism on the part of Japanese soldiery, too often reported from reliable sources throughout the occupied areas of this district to be doubted more than in minor detail, that so dismays and horrifies the average Chinese. The not infrequent cases of several Japanese raping one woman are particularly bestial in Chinese eyes. Their own irregulars and bandits are hated mostly for financial exactions and looting, the Japanese troops mostly for their treatment of Chinese women.

The Japanese *gendarmarie* have in Kiukiang, as they have in Hankow, exerted themselves to curb the excesses of Japanese troops. The behavior of Japanese soldiers in the city has been therefore somewhat

less disorderly than in the country. In conversations with farmers several miles outside of Kiukiang, Mr. Davies was told that Japanese troops calling at a village or farm house appropriated household articles that took their fancy and smashed other objects in sport. Farm products commandeered were sometimes paid for, more often not. Peasants carrying produce to Kiukiang for sale had so often been robbed by Japanese soldiers of either their commodities on the way to market or of their cash on the way home that many of them had abandoned any attempt to market their produce at Kiukiang. Foraging parties calling at farm houses almost invariably demanded young women.

Punitive expeditions to a village suspected of having given aid to guerrillas follow the same saturnalian procedure on the Yangtze as on the Sungari: a certain part of the male population (depending upon the "guilt" of the village) is shot outright, the women are raped and some killed, the houses are burned.

Japanese Military Mentality:

Probably the most common question asked by Americans in this district concerning the new dispensation under which they are living is, "Why are the Japanese so savage in their behavior towards the common Chinese people and so malevolently rude towards us?" An American in Kiukiang asked Mr. Davies, "Why, for example, has the Army Special Service Section told its Chinese employees, as we have naturally learned, that it is permissible to beat a French citizen or even kill him; an American may be beaten but should not be killed?"

An interpretation of the mentality of the Japanese military in China is essential to an understanding of the position of Americans in Kiukiang and other occupied towns. Being without a Japanese service officer, this office is not competent to examine this question in the detail which it deserves. The following brief observations may, however, serve as a thumb-nail sketch of the subject and complement what has been said in preceding paragraphs about the behavior of the Japanese armed forces.

The Japanese military in China obviously have a conviction of divine mission. Primarily, this mission is, of course, the fulfillment of duty to the Emperor and the bringing of glory to the Empire through martial conquest. Secondarily, but of major importance in contributing to a psychological conflict in the military, is the idealistic belief that the mission is also a crusade to liberate the Chinese people from the oppression of their own rulers. Opposition to the crusade is, by Japanese logic, to be expected from the Chinese Government and its armies and grateful gladness from the Chinese people.

To the Japanese soldier the resistance from armed peasants, the flight of most of the population from him and the unmistakable re-

sentment and fear of those whom he does succeed in "liberating" are a shocking rejection of his idealism. The psychological conflict is thereby precipitated, and is certainly not lessened by the continued insistence of official pronouncements on the theme of idealism. What critical faculties he may have been endowed with at birth having atrophied through non-use, the average Japanese soldier is unable to resolve this psychological conflict through revolt or decent cynicism. He benightedly vents the conflict in vengeful action against the people whom he believes have denied his chivalry.

The excessive forms which this vengeance takes need further interpretation. They are perhaps largely explained by the transition of the average Japanese soldier and officer in China from a social system in which the police and family dictated most phases of his behavior to a war situation in which there are no constant social checks. Never having been encouraged to appraise independently moral values, he is in China without apparent moral judgment. This moral infantilism, with all of its ramifications of primitive glorification of the sword fetish and blood-letting, and low regard for human sensibilities, especially in respect of women, accounts in a large measure for the odious reputation of the Japanese army and navy forces in this district.

The Position of Americans:

Again taking Kiukiang as a town representative of those in this district occupied by the Japanese, it may be profitable to examine the position of Americans there. They were surrounded by and at the mercy of men who had not only been taught to despise and hate Americans but who also suffered from delusions of their own divine origin and divine mission, whose urge in dealing with occidentals was to overcompensate a subconscious feeling of inferiority and whose personal life was unfettered by the social control which in Japan once caused them to be regarded as a civilized beings.

The one factor which prevented the Americans in Kiukiang, as elsewhere in occupied territory, from being subjected to a worse fate than the Chinese was Japan's international policy. Abundant circumstantial evidence suggests that the Japanese armed forces in this district have been held in check in their behavior towards Americans only by strict orders from the Japanese High Command to avoid incidents which might lead to complications in American-Japanese relations. Americans have indicated their anxiety lest, in an international crisis, these orders be rescinded.

In conclusion, it may be said that conditions in the smaller cities and towns of this district and the position of Americans in them can be fully appreciated only through first-hand observation. This office has, of course, since Japanese invasion of this district regularly received reports from trustworthy sources on the situation in the out-

lying areas occupied by the Japanese armed forces. They have been accepted with a certain degree of reserve because, being confined by Japanese restrictions to the intact and more or less orderly sections of Hankow, the staff of this Consulate General has not had an opportunity personally to observe the environment in which Americans outside of Hankow are living.

There are enclosed, as setting forth in further detail the position of Americans in Kiukiang, copies of the communications sent and received by Mr. Davies while at Kiukiang.³⁰

Respectfully yours,

P. R. JOSSELYN

793.94119/515 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 28, 1939—11 a. m.

[Received noon.]

217. My 211, March 27, 11 a. m.³¹ The Counsellor on March 27 confirmed to me that the French Embassy in Tokyo had transmitted the report of the intention of the Japanese Government to attempt peace negotiations at an early date. In regard to rumors of impending peace negotiations the Minister of Economics told me it was reported that Konoye would be sent to China for this purpose and that he would also proceed to the United States to promote American understanding of the Japanese "new system" et cetera. The Chinese informant said that with present conditions he could see no possible hope for agreement to end the hostilities and said resistance would continue indefinitely with Chinese confidence of ultimate success based partly on the increasing difficulty Japan experiences in meeting the tremendous expense. He said, however, that while Chinese expenditures were only a fraction of Japanese, nevertheless, the sufferings of China as the invaded nation were appalling and in this respect Japan had the superior position. Moreover, China's resistance is severely hampered by obstacles to the export of goods and the importation of munitions in which respects Japan is free. He was most anxious lest pending American neutrality legislation, as reported to the Chinese Government, should further assist Japan whose ships touch at American ports to the disadvantage of China which has no such shipping. He earnestly hoped that nations sympathetic with China's cause would delay no longer in applying some sort of economic pressure on Japan to procure the end of the hostilities. I thought it advisable to point out that while American sympathies were indubitably with China American popular sentiment is firmly against any action likely to

³⁰ None printed.

³¹ Not printed.

involve the United States in war and that in reading reports of pending neutrality legislation he must remember that such enactments must receive popular approval.

Repeated to Peiping and Shanghai. Peiping repeat to Tokyo.

PECK

793.94/15020

*Memorandum Prepared in the Department of State*³²

[WASHINGTON,] April 1, 1939.

In the absence of any statement by the Chinese or the Japanese Governments of the reasons why those Governments respectively have not declared war in connection with the current China "incident", any statement which may be made by anyone in answer to the question, "Why have China and/or Japan not declared war?", can at best be only a statement of opinion. Such a statement, moreover, involves an exercise of judgment by its maker with regard to the animation and the motivation of the decisions and acts of human beings other than himself, and therefore involves excursion into a speculative field.

It is believed that no one and single cause can safely be attributed. As a broad generality, it may perhaps safely be suggested that each government has refrained from declaring war on the theory that by so doing it is best serving its country's interest.

The question arises: Why should China have declared war? China did not launch hostilities against Japan; the hostilities were begun by Japanese armed forces, in China, and they have been carried on by Japanese armed forces, against China, in China. As between Japan and China, if it were to be expected that either country would declare war, it would naturally be expected that the first declaration would be made by the Japanese. (Note: It appears that in the case of Italian-Ethiopian hostilities neither country declared war. At the end, however, of the hostilities, the Italian Government described what had taken place as having been "war". In the Japanese-Chinese case, the Japanese have officially and persistently designated what is going on as the "China incident".)

Had there been or were there to be a declaration of war either by Japan or by China, that part of the general body of international law which is known as the Law of War would immediately come into operation. This would immediately alter the general legal situation by making the parties to the conflict subject to the laws of belligerency and making the other nations (those which might elect to remain neu-

³² In response to an inquiry from the Chairman of the House Committee on Foreign Affairs (Bloom) as to why neither China nor Japan had declared war, the unsigned memorandum was prepared in the Department for informal and unofficial communication to Mr. Bloom.

trials) subject to the laws of neutrality. It would seem that both the Japanese and the Chinese Governments have preferred thus far that this alteration of the situation not be brought about. Viewed from a distance, it would seem that, were that alteration brought about, the advantages flowing therefrom to Japan, a naval power, would be greater than the advantages to China, in so far as the conflict between those two countries is immediately involved. That consideration alone would perhaps account for China's not having chosen to declare war. (Note: At the same time, it would seem that from point of view of Japan's relations with other powers, there might arise, if the Law of War went into effect, disadvantages to Japan outweighing the possible advantages; and there is warrant for a hypothesis that this possibility may have been of considerable weight among the factors which have caused Japan to refrain from declaring war.)

As suggested above, more considerations than one enter into the making of such a decision. Among the many facts and factors which doubtless have been considered by the Chinese and the Japanese Governments mention may be made of the fact that there is in existence in the United States "neutrality" legislation. Had either the Chinese or the Japanese Government declared war, the President of the United States presumably would have felt obliged to issue the proclamation provided for in the Neutrality Act, and a series of effects would have followed. There is much difference of opinion on the subject of advantages and disadvantages which would accrue to China and to Japan respectively from the going into operation of the provisions of the United States neutrality legislation. It is problematical which of the two countries would gain more and which would lose more were that legislation put into "operation". However, the Chinese, generally speaking, that is, both Chinese officialdom and the Chinese public, have clearly been of the opinion that China would be more adversely affected than would Japan. The Chinese, therefore, have not desired that the said legislation come into "operation". That fact would be a factor among the various factors which would contribute to the disinclination of the Chinese Government to declare war. In Japan, it would appear, there has not been the unanimity of opinion that has been discernible in China on the subject of relative advantages and disadvantages which would flow from the coming into "operation" of the United States neutrality legislation. As a factor, among the many which have entered into the determining of their position on the subject of declaring war, the existence of the United States legislation has probably been of less weight in the case of Japan than in the case of China. Nevertheless, it may be that responsible and thoughtful Japanese officialdom has attached a good deal of importance to the question: What indirect and once removed consequences,

in the field of further evolution of American public opinion and of action by the United States which might flow therefrom, might develop were a possible new sequence of events to be initiated by the coming into operation of the United States neutrality legislation? How much an apprehensive foresight may have influenced their thought, it is impossible to estimate.

It must be remembered that China and Japan have been in different positions because of and in regard to certain treaty obligations. China is a member of the League of Nations and Japan no longer is a member. The Chinese feel that provisions of the Nine Power Treaty are advantageous to China and the Japanese feel that provisions of that treaty are disadvantageous to Japan. In those contexts and settings, the Chinese would probably feel themselves more inhibited against declaring war than would the Japanese. However, both countries are signatories of the Pact of Paris, and from point of view of the declaration and pledge contained in that pact, each country would presumably be reluctant to declare war.

793.94119/516 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, April 3, 1939—3 p. m.
[Received April 4—5:30 a. m.]

167. 1. From a foreigner who has close associations with members of the Provisional Government and some contact with Japanese officials, it is learned that responsible Chinese of the regime here, some of whom are said to be on good terms with Chiang Kai Shek, are being more firmly pressed by the Japanese than at any time previously to find some formula acceptable to Chungking as a basis for the conclusion of peace. It is being intimated by the Japanese according to my informant that they would be prepared to go even to the extent of withdrawing from all occupied territory in Central and South China on the sole condition of a definite plan for economic cooperation in North China, together with the retention of garrison troops in this area to protect Japanese citizens and investments. There is even talk that these conditions might well envisage the restoration of a Chiang Kai Shek government in North China with the Kuomintang again in authority. Whether these overtures if they can be so described come with any sanction from Tokyo is not known by my informant but they reflect a thought in certain circles. Among younger members of the group affiliated with the Peiping regime, however, there are many who dissent from the view that peace is

desirable at this time, their view being that the longer the hostilities continue the better are the chances for a Chinese victory, or at least a settlement far more favorable than any which could be obtained at present. This group is deriving a great deal of satisfaction and encouragement from the American and British loans which they feel reflect the optimism of those two Governments on the ultimate outcome.

2. Certain well-known Chinese identified with the regime here having long since become aware of the futility of hoping to work independently of the Japanese in administering the affairs of the Provisional Government are in a discouraged frame of mind and apparently would welcome a concrete peace move from either side or preferably a bold stroke by a disinterested neutral. If the present unsatisfactory state of affairs from their point of view continues, some of them notably Wang Keh Min threaten to resign. Wang has made such threats before.

3. The drift of thought in regard to the foregoing is difficult to follow but there appears to be a rather well defined opinion among foreigners at least that the peace terms which Japan would be willing to accept would be far less onerous now than would have been the case a year ago. Nevertheless the circle which is directly concerned with running up peace weather vanes in North China is very small and generally uncommunicative which means that such information as is obtained from time to time usually comes second or third hand and often must be discounted.

Sent to Chungking, code text to Tokyo.

LOCKHART

793.94119/524a : Telegram

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

WASHINGTON, April 5, 1939—7 p. m.

84. The Department has received information to the effect that the Japanese, alleged to be desirous, in the light of developments in Europe, of negotiating a settlement with the Chinese Government, have made an approach (perhaps through a go-between) to a prominent Chinese; that in the approach, liberal terms have been hinted at, Ugaki³³ has been mentioned as behind the move, as being influential offstage, and as being in position to come out to handle negotiations; and that the Chinese thus approached has replied that a Chinese and Japanese settlement can come only as a part of a general international settlement.

³³ Gen. Kazushige Ugaki was Japanese Minister for Foreign Affairs, May-September, 1938.

It is assumed that the Embassy has received Chungking's 211, March 27, 11 a. m.,³⁴ which Chungking indicates was mailed to you and which also mentions the subject of a possible early move by Japan to endeavor to negotiate a settlement with China.

HULL

793.94119/523 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, April 6, 1939—3 p. m.

[Received 8:30 p. m.]

174. Peiping's 48, January 23, 4 p. m., 167, April 3, 3 p. m. and 168, April 3, 10 p. m.³⁵ According to Chinese sources who have good contacts with the "Provisional Government" there are reports current here that General Doihara has gone to Hong Kong or vicinity where he is secretly negotiating with representatives of Wang Ching Wei; that the Japanese have more or less given up hope of persuading Wu Pei Fu to accept office in their regimes and are making a determined effort to induce Wang Ching Wei to assume office as head of some sort of central government for the occupied areas; and that Wang Keh Min, who has hitherto opposed any plan to establish a new Federal Government under Wu Wei Fu or under anyone who would overshadow him, has now agreed or been persuaded to agree to the plan to place Wang Ching Wei at the head of a central government. These sources state that the Japanese are encouraged in their efforts by the report that Wang Ching Wei was greatly angered by the attempt to assassinate him which resulted in the death of his secretary and old friend, Tseng Chung Ming.

The above information is reported for what it may be worth. I understand that the Japanese urgently desire to obtain the cooperation of Chinese in "pacifying" the occupied areas and in eliminating guerrillas and irregulars in order to induce a flow of products from those areas (such as cotton from North China) and to release troops for use elsewhere. It is reliably reported for example that approximately two Japanese divisions have been engaged in the campaign against guerrillas in central and southern Hopei during the past 2 months and that another large force has been stationed or operating in eastern Hopei for the same purpose. In these areas alone therefore it would appear that some 50,000 Japanese troops have been immobil-

³⁴ Not printed.

³⁵ Telegrams Nos. 48 and 168 not printed.

ized by the presence and activities of guerrillas and irregulars and have thereby been prevented from reinforcing the Japanese forces on the so-called "fighting fronts"; if these troops and others immobilized elsewhere in the occupied areas in northern China were free to reinforce the Japanese forces in Honan and Shansi the Japanese High Command might be better prepared to undertake a campaign with the objective of severing the Chinese northwest line of communications through Sianfu and points west.

Repeated to Chungking. Code text by air mail to Tokyo.

LOCKHART

793.94119/525 : Telegram

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

TOKYO, April 7, 1939—4 p. m.
[Received April 7—6:35 a. m.]

169. Department's 84, April 5, 7 p. m., reported Japanese peace approach and Chungking's 211, March 27, 11 a. m.³⁶

1. Reaction is "negative" to discreet inquiries. One reliable Japanese informant stated that my British colleague was authoritatively told before his departure for Shanghai that he need not look for any Japanese overture toward peace.

2. The questions whether Japan will declare war against China in the event of a war in Europe and of her attitude toward Germany and Italy are being constantly watched by us and we are of the opinion that there would be no sound basis for making at this time a definitive estimate with respect to either question. Indications are growing stronger that it will be a specific objective of Japanese policy to avoid involvement in the European crisis and that as a European war would affect China's international position no less than that of Japan, Japan will undertake no change in her China policy until the situation in Europe is crystallized.

Repeated to Shanghai for Chungking.

GREW

793.94119/527 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 8, 1939—10 a. m.
[Received April 8—8:10 a. m.]

247. Peiping's 172, April 5, 2 p. m.³⁷ Wang Ching Wei's utterances of March 27 (of whose authenticity there exists no doubt locally),

³⁶ Latter not printed.

³⁷ Not printed.

coupled with the publication of the *Ta Kung Pao* article (even though its veracity is open to doubt) concerning his alleged machinations with the Japanese (Embassy's 238, April 5, 10 a. m.³⁸), will mean in the opinion of the Embassy the abandonment of efforts employed by the Chinese authorities since his departure from Chungking to obtain assurances that he will refrain from activities opposed to the continuation of resistance. It seems probable that the Chinese authorities will ignore his recent pronouncement on the ground that to refute his contentions (which are regarded in official quarters as anything but convincing) would lend undeserved importance to the matter and perhaps lead to further undignified and profitless controversy.

Wang's future moves probably will have little influence on the policy of the National Government in relation to the continuance of hostilities which from all indications continues to be based on the Generalissimo's statement of December 26³⁹ (Embassy's despatch number 122, January 24³⁸). It is generally felt in Government circles that Wang's following is small and that his activities since his departure from Chungking have antagonized rather than endeared him to any vocal segment of the Chinese people.

There is, however, much speculation locally as to Wang's future moves, the general feeling being that Wang will not at this time align himself with the existing puppet regimes nor participate with the Japanese in the formation of any new regime.

Repeated to Peiping, Peiping mail to Tokyo.

PECK

793.94119/529: Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, April 9, 1939—1 p. m.
[Received April 10—6 a. m.]

116. This office is reliably informed that there recently came to Hong Kong "to carry on secret peace negotiations with certain Chinese leaders" one Lee Soy, known also as S. Y. Leigh, who is said to be an official adviser to the Governor of Fukien Province. He endeavored to discuss the situation with T. V. Soong⁴⁰ claiming to have an indirect message from General Ugaki. Soong says he refused to enter into a discussion although the Japanese have, in view of the European situation, made various approaches to him suggesting liberal peace terms.

³⁸ Not printed.

³⁹ See telegram No. 622, December 27, 1938, 10 a. m., from the Chargé in China, *Foreign Relations*, 1938, vol. III, p. 436.

⁴⁰ Chairman of the Board of Directors, Bank of China.

Soong thinks the mention of Ugaki significant and latter would promptly emerge from behind the scenes to handle directly any peace negotiations. Soong has replied to such approaches that Chinese-Japanese peace could be arrived at only as a part of the participation in world settlement. The United States Treasury Agent here very confidentially informs me that he has reported along these lines to his Department in Washington.

Repeated to Amoy, Canton, Shanghai, Chungking, and Peiping for Tokyo.

SOUTHARD

793.94/14878 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 11, 1939—6 p. m.

[Received April 11—1 p. m.]

255. Royal Leonard, American aviator, who piloted the Russian Ambassador and Sun Fo⁴¹ to Tihua on March 26 and 27 has informed an Embassy officer that the military aviation field at Lanchow, Kansu (where the plane stopped overnight), is the largest in China, extending for more than a mile in length. He also confirmed reports of a large concentration of pursuit and bombing planes of Russian design at Lanchow (he estimated the number at more than 50 planes). He said both Chinese and Russian pilots and mechanics were in evidence at the airport.

The informant added that he was told at Lanchow that the bodies of Italians were found in the wreckage of some of the 15 Japanese planes brought down in recent raids on that city.

Repeated to Peiping.

PECK

793.94/14898 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 17, 1939—10 p. m. [a. m. ?]

[Received April 17—1:15 p. m.]

268. L. C. Smith, Reuter correspondent, who has just returned from a 6 weeks tour of the area under Yen Hsi Shan's control which roughly comprises the southwest quarter of Shansi Province, gathered the following impressions:

The people have been well organized and mobilized for resistance along the lines advocated and used by the Chinese Communists but with complete absence of communist influence and political doctrines: their morale is high. Yen Hsi Shan, who maintains his main base

⁴¹ President of the Chinese Legislative Yuan.

in Shensi, has his own army of 9 divisions totaling 80,000 men: in addition he commands 3 central and 3 independent brigades of approximately 20,000 regulars and also formidable forces of irregulars and self-defense corps. Supplies of light arms and ammunition appeared abundant. Guerrilla tactics in which Shansi troops excel are used almost exclusively. Japanese influence is restricted to railway which is kept open to traffic by the stationing of Japanese troops and Chinese mercenaries at block houses which have been constructed at intervals of 2 miles along the railway.

Informant who is believed to be a competent observer came to the conclusion that the Japanese are definitely on the defensive in southwest Shansi for want of troops and that efforts to clear that area as well as other portions of Shansi will prove a long and costly if not impossible task. He stated that the Chinese authorities, who seem to possess an excellent espionage service, told him that Japanese troops now in the province number at least 180,000 but are able to do little more than keep the lines of communication open.

The informant also interviewed leading military officials in Sian who expressed the view that the Japanese would probably attempt to invade Shensi by way of the Han River Valley rather than Shansi but added that they would have to overcome 3 separate army corps (including those of Li Tsung Jen and Hu Tsung Nan) in achieving this objective. Smith stated that the Japanese air raid at Sian on March 7 during which heavy bombs were dropped in the center of the city resulted in 4,000 casualties including 1,000 killed. Cheng Chien, Director of the Generalissimo's Sian headquarters, and Chiang Ting Wen, Chairman of the Province, narrowly escaped death in this raid, while 3 generals and 55 other officers who were attending a military meeting at the time were killed.

Repeated to Peiping.

PECK

793.94/14909 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 19, 1939—9 a. m.
[Received 1:30 p. m.]

274. 1. McHugh ⁴² reports that he learned very confidentially from Chiang's emissary himself that when the British Ambassador ⁴³ passed through Hong Kong on April 8th he was handed a memorandum which informant had just brought down from Chungking and which contained the following proposals from Chiang Kai Shek:

⁴² Maj. James M. McHugh, U. S. M. C., Assistant Naval Attaché in China.

⁴³ Sir Archibald Clark Kerr.

(1) that constructive peace is indivisible between Europe and China, *id est*, it cannot come to one area until it is achieved in the other;

(2) that if Japan should make a proposal that Great Britain and France should recognize and cooperate with Japan's position in North China in exchange for a promise from Japan not to join a Rome-Berlin military alliance or attack Hong Kong or Indo-China, Great Britain and France should disregard such a proposal;

(3) that because Great Britain and France would not be able to spare troops or ships to defend their interests in the Far East, China would be willing to supply both troops and labor corps in return for arms and munitions;

(4) Generalissimo hopes therefore that collective security will be extended to the Far East and suggested that conversations be started for a mutual assistance pact between Great Britain and France;

(5) he feels that the advantages of such an arrangement would be

(a) to have a deterring effect on Japan prior to the outbreak of hostilities in respect to acts of aggression against Hong Kong or Indo-China and

(b) that it would also deter Japan even after the outbreak of war from taking immediate action in support of the Totalitarian Powers.

2. McHugh's informant stated that Clark Kerr offered little comment but expressed the view that such a pact might tend to alarm the Japanese and undo the efforts which the British tried to prevent within the last few months to forestall Japanese signature to a formal military alliance with Germany and Italy in lieu of the existing Anti-Comintern Pact.⁴⁴

3. Although the informant agreed that the foregoing suggested apprehension and distrust on the part of Chiang of the future actions of Great Britain and France, he stated that Chiang had appeared calm and confident and had not clearly indicated the possession of any immediate information to support such suspicion.

[4?]. That despite present widespread rumors to the effect that the British Ambassador to Japan came to Shanghai to convey and discuss with his China colleague the peace terms for transmission by the latter to the Chinese Government, the above person stated that Clark Kerr gave no indication of such a mission. McHugh states that the British Ambassador informed him here last November and again reiterated to him in Shanghai in January that he intended to return to Chungking about this time as a routine step. On the latter occasion Clark Kerr discussed at some length the change of attitude toward Japan which his Tokyo colleague had finally experienced last November plus the British efforts from December onward to stall off Japanese adherence to a military alliance. Any role as a special peace emissary at this time is therefore believed doubtful although he is very probably

⁴⁴ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 159.

equipped with ample information on which to base informal discussion of the present Japanese attitude with respect to a peace compromise.

5. Similar rumors as to Madame Chiang Kai Shek's recent visit to Hong Kong are likewise doubted by McHugh who spent the last 10 days with her and Donald⁴⁵ there and returned with them on the 17th. They did not see Clark Kerr when he passed through Hong Kong nor was the question of peace mentioned at any time.

6. It is requested that the substance of the foregoing be made available to the Navy Department. Peiping please similarly convey to the Naval Attaché and Shanghai to the Commander-in-Chief. Peiping repeat to Tokyo.

PECK

694.9315/2

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

No. 3838

TOKYO, April 21, 1939.

[Received May 16.]

SIR: I have the honor to report that a "North China Economic Mission" composed of some 30 North China businessmen and headed by Mr. Wang Yin-Tai, Minister of Industry of the "Provisional Government" arrived in Tokyo on March 30, 1939, for a scheduled stay in Japan of approximately one month.

[Here follows report of the mission's activities in Japan.]

While the functions of the mission are not apparently political in nature, and while the mission has no authority to conclude agreements, its head and a number of the members of the mission are in authoritative position to speak for the "puppet" government of North China. Likewise the Japanese business leaders who attended these meetings have been sufficiently identified with the past and present development of Japan's economic policy on the mainland to warrant treating their views as expressed at these meetings with "The North China Economic Mission" as more or less authoritative outlines of Japan's economic objectives in North China. It appears clear from the discussions which have taken place during the mission's stay in Japan that the Chinese who have been won over to the Japanese cause in North China are filled with misgivings with regard to the position they will occupy under Japanese-controlled North China. Through *force majeure* they will more than probably have to accede to Japan's demands to revise the customs tariff downward in favor of Japan and to their own detriment—specific duties will be replaced by *ad valorem* rates—the gold unit system will eventually go by the

⁴⁵ W. H. Donald, Australian adviser to Generalissimo Chiang Kai-shek.

boards to ensure a smooth functioning of the Japan-China-"Manchukuo" yen bloc. Such capital as can be obtained from Japan will be used to foster industries which will not compete with industries in Japan, thereby preventing any natural growth of Chinese industries.

It will be noted that the spokesmen for the Japanese gave no assurances that the exchange and trade controls now in effect in North China would be relaxed to permit of a return of North China's export and import trade to normal channels. The Japanese themselves it would appear see no end in sight to the exchange problem which their adventures on the Continent have created. All these considerations would appear to point to but one conclusion—Japan is determined to make North China a subsidiary unit in its economic system—a unit which will provide a limited number of raw materials, the export of some of which will create foreign exchange, the greater part of which will be absorbed by Japan in return for which Japan will supply cheap machinery, piece goods, and similar materials for which its own industrial plant is well-g geared. Foreign interests apparently will survive only to the degree that they do not interfere with the development of this program. Their fate in the end will probably parallel that of foreign firms in "Manchukuo". As for the Chinese people themselves, the logical development of Japan's program can only mean economic and political enslavement. This much may be said for Japan's prospects of success in North China—North China is not a strategic area in the same sense as "Manchukuo" and therefore will not require the large outlay of capital which has been necessary for the building up of heavy industries in that "puppet" state.

Respectfully yours,

JOSEPH C. GREW

793.94/14919 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 22, 1939—9 a. m.

[Received April 22—8 a. m.]

282. On April 20, the Chinese Minister for Foreign Affairs inquired of me on the telephone whether I had any information concerning the news reports from Tokyo that the President might cause a note to be addressed to the Japanese Government in the general sense of the communications addressed to Germany and Italy 1 week ago.⁴⁶ The Minister said he would be glad to talk with me on the subject. During our conversation on April 21 the Minister said that since his inquiry he had received a report of the recent interview of the Chinese

⁴⁶ See telegram of April 14 from President Roosevelt to the German Chancellor, printed in vol. I, section entitled "President Roosevelt's Messages of April 14 to Germany and Italy . . ."

Ambassador with the President which answered his question. He said that the President had observed that the news résumé in question (to retranslate the Chinese phrase employed by the Ambassador in his report) had been "fabricated with a purpose" and that the President had added the comment that his approaches to Hitler and Mussolini might be rebuffed and that there might be war in Europe but that even in this event China might regard the future with some optimism because a war would compel Japan to mobilize large forces against Russia and if general peace discussions took place Japan would no doubt want to be included.

The Minister said he thought there was a growing desire in Japan for termination of hostilities if a way could be found to accomplish this without loss of prestige such as through the intermediation of third powers. China, of course, would not sue for peace but he recalled the fact that China had more than once broached the summoning of an arbitration on Far Eastern matters. The Minister mentioned the fact that Japanese news despatches had expanded on the interpellation in Parliament which resulted in the statement of the Prime Minister that the British Government would keep in mind the possibility of extending the "non aggression movement" to the Far East. He thought this another indication that there is in Japan a growing desire for peace.

The Minister informed me that the Chinese Government had recently suggested to the British Government that China be included in the bloc of nations invited to join the non aggression understanding but had indicated that China could not do this unless Russia joined it and the proposal was awaiting the outcome of the discussions between Great Britain and Russia. He expressed the hope that if China joined this group of nations there would be some mark of sympathy and approbation, official or semi-official, on the part of the United States.

Reverting to the subject of the Chinese Ambassador's conversation with the President, the Minister said that the Ambassador had expressed the hope of the Chinese Government that whatever neutrality legislation might be enacted would not be to the advantage of Japan and to the detriment of China and that the President had replied that he thoroughly understood the situation.

The Minister asked me to let him have the earliest important information I might receive in regard to either of the subjects he had discussed and I promised him I would.

In reply to a question he told me he had held an hour's conversation with the British Ambassador who arrived in Chungking on April 19 but they had not discussed any possible terms for ending the hostilities.

Sent to the Department. Repeated to Peiping. Latter mail to Tokyo.

793.94119/535: Telegram

*The Chargé in China (Peck) to the Secretary of State*CHUNGKING, April 22, 1939—noon.
[Received April 22—10:30 a. m.]

284. Under date April 18 the local press published an important statement by General Chiang Kai Shek in reply to questions propounded by correspondents. Following are excerpts as translated by Embassy:

General Chiang recalled his statement of December 26, last, and reiterated that the "establishment of a new order in East Asia" is merely a new phase for the Japanese absorption of China. He went on to say that Konoye's term constituted "a Japanese plot not only to attain hegemony in East Asia and annihilate China, but also to destroy the interests of all powers in the Pacific". He heaped scorn upon those who advocated peace on the basis of Konoye's terms and declared that "there is absolutely no latitude for peace and no advocacy of surrender framed in words however ingenious or subtle can have any power to shake the determination of our whole country in any contingency". Apparently referring to Wang Ching Wei and other Chinese advocating peace, General Chiang said "they have already been sentenced to death spiritually and are really not worth mentioning" and explained that their disposition "depends entirely on their future activities".

In reply to a question as to the ultimate settlement of the conflict, General Chiang said Japan has been reduced to the status of a second rate power by Chinese resistance and that accelerated resistance will render Japan's position unstable. He said peace could not be realized until the Japanese "come to a true recognition of China's strength of resistance" and until "the Japanese militarists thoroughly realized their mistakes, voluntarily give up their aggression and effect a fundamental change in their traditional policy". If the Japanese persist in their present policy, General Chiang asserted, "there is not only absolutely no possibility of the war coming to a conclusion but there will never be peace in East Asia".

General Chiang defended the military strategy of "procuring time through sacrifice of space and gaining the final triumph through the accumulation of small victories" and declared that the present military position insofar as China is concerned is better than he had expected when planning for the present conflict.

Translation of complete text will be forwarded by air mail.

The press gives full support to the Generalissimo's views and attaches significance to them in the light of Wang Ching Wei's recent

utterances and of the visit of the British Ambassador to Chungking.
Repeated to Peiping. Peiping please mail to Tokyo.

PECK

793.94119/539: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 24, 1939—10 a. m.

[Received 10:28 a. m.]

285. During a 2-hour informal conversation with McHugh on April 22 the British Ambassador referred to what he termed "the Wang Keh Min-Kita peace terms" which had been reported from Peiping a few weeks ago (see Peiping's 97 of February 24, 2 p. m.), with which terms he said he assumed McHugh was familiar. He stated that the British had checked this information later and had found it to be absolutely reliable. He went on to say that he understood the Japanese Army had agreed with the more moderate element in Japan to permit negotiations regarding the terms indicated during the coming summer if the army had not succeeded by that time in achieving evidence of substantial progress in their own program toward a settlement of the present conflict. The Ambassador added that he understood the good offices of Great Britain and the United States as mediators would be sought and that the Japanese proposed to attempt to placate us toward this end between now and midsummer by minor concessions on various outstanding problems. He stated however that the British had no evidence of such placation to date especially at Tientsin where the Japanese were pressing them very hard.

The Ambassador stated that British intelligence agencies still believed Wang Ching Wei to be a potential peace emissary for the Chungking Government. He did not refer to him directly however in reviewing briefly the above peace conditions but merely stated these: as military withdrawal from Central and South China, probable renewal of an enlarged safety zone around Shanghai, demilitarization of North China with special economic privileges there for Japan, recognition by China of Manchukuo, and some special understanding regarding Inner Mongolia.

Sir Archibald assured McHugh that neither his present visit to Chungking nor the recent visit of Sir Robert Craigie⁴⁷ to Shanghai was directly concerned with peace negotiations. With respect to the latter he referred to previous conversations with McHugh at Changsha and Chungking last fall and later at Shanghai in January when

⁴⁷ British Ambassador in Japan.

he described the differences in point of view between himself and his colleague at Tokyo regarding general British policy in the Far East and the specific question of extending aid to China. The visit of Craigie to Shanghai had been suggested by Chiang Kai Shek during Clark Kerr's interviews with Chiang at Changsha and had subsequently been approved in principle by London. It had been deferred at the suggestion of the Foreign Office until after the passage of the recent bill for the support of China's currency in order not to embarrass Craigie in Japan by giving the impression that this aid had come about as a result of his trip to Shanghai. Sir Archibald confidentially added that he had consented to permit the currency stabilization fund to be publicized in Japan as designed for the relief of British merchants in China rather than as the direct assistance to the Chinese which it really was. He stated that he felt he could afford this concession since he had his way finally in the main courses of action which he has been urging upon London.

He reviewed his three point program which he had mentioned to McHugh in January as follows: first, a firm reaffirmation of the principles set forth in the Nine Power Treaty; second, financial assistance to China; and third, retaliatory measures against Japan to bring about a cessation of the present war and force respect for the rights of third powers. Points 1 and 2, he stated, had now been accomplished and in collaboration with the United States as he had advocated, the British having followed the lead of the United States in each instance. Point 3 he said he believed to be by far the most important and he expressed the hope that concrete measures in this direction would soon be forthcoming lest the beneficial effect of the first two points be lost.

Sir Archibald was scheduled to have his first talk with the Generalissimo later the same day he reviewed with McHugh the general topics which he hoped to bring up and which dealt mainly with questions of the present state of Chinese morale and resistance, plus the failure of the Japanese with whom he had talked to appreciate the true state of affairs within China. In response to leading questions by McHugh with regard to the subject matter of the memorandum which has been handed him recently in Hong Kong (see my 274, April 19, 9 a. m.), the Ambassador did not directly admit receipt of the proposals from Chiang Kai Shek. He assured McHugh, however, that Chinese apprehension over possible desertion by Great Britain in favor of some special arrangement with Japan in the event of world war was absolutely unfounded and out of the question. With regard to the present Chinese counter-offensive, Sir Archibald said he had been told by Dr. Kung⁴⁸ at dinner the previous evening

⁴⁸ H. H. Kung, Chinese Minister of Finance.

that the real offensive had been planned for a while; that the present one consisted only of a few thrusts which had been deemed necessary at this time as an offset to the Japanese capture of Nanchang. Sir Archibald expressed the desire for a further talk with McHugh in about a week after he had had time for further conversations with various officials. He stated that he expected to remain here for at least 3 weeks.

McHugh requests that the substance of the foregoing be made available to the Navy Department, the Naval Attaché at Peiping, and the Commander-in-Chief at Shanghai.

Repeated to Shanghai, Peiping. Latter mail to Tokyo.

PECK

793.94119/540 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 26, 1939—11 a. m.
[Received 11:20 a. m.]

290. My 284, April 22, noon.

1. The unalterable determination of Chiang Kai Shek to continue resistance to Japan until victory is achieved as publicly announced by him on April 18 has received confirmation in statements to McHugh by Donald on April 25. The latter said that the question of peace terms had not been discussed between Chiang and the British Ambassador nor during informant's daily association with Chiang in recent months had the latter even mentioned the subject which seemed conclusive evidence that it had not even been considered. Informant said that before the British Ambassador went to Peiping in January he had telegraphed asking Donald to ascertain what the attitude of Chiang would be toward the Ambassador's seeing Wang Keh Min. The result of the inquiry was an instruction to inform Clark Kerr that if Wang were a patriot he would leave his position or get killed in the attempt and that Chiang would have nothing to do with any man who associated with the Japanese.

2. Informant reported that Chiang had stated privately on April 25 that the present military operations were not the counter offensive he had planned and that he wanted all publicity on the subject stopped because he anticipated that the Japanese with their superior heavy equipment would still be able to crash through in places. Donald explained that Chiang's plan was to hold off until the Japanese were obviously exhausted and then attack them on all exhausted [*fronts?*].

3. McHugh requests same distribution as described at end of Embassy's 285, April 24, 10 a. m.

Repeated to Peiping and Shanghai. Peiping mail to Tokyo.

PECK

793.94/15005: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 15, 1939—1 p. m.

[Received May 15—8 a. m.]

332. The Embassy is informed that Leighton Stuart and George Taylor, both of Yenching University at Peiping, came to Chungking about a week ago expressly to impart to the Generalissimo and other high authorities their concern over recent developments in the Province of Hopeh. They are represented as having stated that the Japanese, as a result of recent vigorous military operations, are now in control of virtually all the important Hsien cities of the central portion of the province; that the Japanese are garrisoning these centers with large forces apparently with a view to holding them indefinitely; and that in their opinion it is imperative for the Chinese to recover these cities this summer, if effective resistance is to be maintained and complete Japanese domination averted. They are reported consequently as having urged immediate intensification of Chinese military activities in Hopeh and to have called attention to the desirability of uniting the military command, now split between the Central Government and the Eighth Route Army, as a first step in this direction. Taylor is a British subject. He and Stuart have now left Chungking. Neither was seen by any member of the Embassy staff during their visit.

Repeated to Peiping.

PECK

793.94/15017: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 17, 1939—noon.

[Received May 17—8:55 a. m.]

337. General Chiang Kai Shek, in an open message addressed to the Provincial and Municipal governments and the people of the country on May 16, referred to the "widespread and wanton" Japanese bombing of Chinese cities in Szechuan, Shensi, Honan, Hupeh, Honan, Kiangsi, Fukien, Chekiang and Kwangtung during the past months and gave the following as the objects of these aerial attacks on undefended cities and defenseless civilian populations: (1) an endeavor to terrorize the Chinese people into submission; (2) an attempt to destroy the means of livelihood of the masses and productive enterprise; (3) an endeavor to create confusion and disorder in the Chinese rear. General Chiang declared that although the Japanese have "resorted to the most ruthless bombing in the history of the world" the Chinese people instead of being demoralized have remained calm and

added "I firmly believe that our people will forever remember the Japanese brutality and will forever remind posterity until the invaders are annihilated and the deaths of our unfortunate brethren are avenged."

Repeated to Peiping and Shanghai.

PECK

123J634/587 : Telegram

The Secretary of State to the Consul at Yokohama (Boyce)

WASHINGTON, May 18, 1939—2 p. m.

For Ambassador Johnson now on steamer *President Coolidge* due at Yokohama on May 19. General Chiang Kai-shek and Minister H. H. Kung have expressed to Mr. Peck the hope that you will defer to a later date your visit to north China and that you will return directly to Chungking. Apparently the attitude of the officials named has its origin in an apprehension lest your proceeding directly from Washington to north China will be construed as indicating a change of policy on the part of the American Government, and also from a desire on the part of the Chinese Government to discuss various matters with you as soon as practicable.

The Department realizes that a change in your present plans, as outlined above, may result in considerable inconvenience to you but in view of all available data is of the opinion that you should proceed directly to Chungking, postponing to a later date your visit to north China.⁴⁹ The Department is appropriately informing Chungking.

HULL

740.00/1565 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, May 23, 1939—11 p. m.
[Received May 23—5:01 p. m.]

242. Our 234, May 18, 5 p. m.⁵⁰

1. I dined this evening privately with the Prime Minister who had sent me word that he wished to explain his purpose in addressing the letter to you.

2. The first part of his discourse ran substantially along the lines of his letter. I pointed out that there would have to be the closest collaboration between the United States and Japan if they were to move jointly toward seeking a solution of the troubles in Europe and I doubted whether such collaboration were possible so long as Japan

⁴⁹ The Ambassador in China postponed his visit to North China and proceeded directly to Chungking.

⁵⁰ *Foreign Relations, Japan, 1931-1941, vol. II, p. 1.*

adhered to its policies and actions in China. The Prime Minister said that public opinion in Japan would not permit of the settlement of the conflict with China being made a condition precedent to the American-Japanese move which he had in mind. The following is a summary of his statement explaining the Japanese position.

3. Japan had no legal obligation to enter the European war on the side of Great Britain⁵¹ but she believed that she had a moral responsibility. Her fleet and merchant marine were used in operations against the enemy, she wrestled Shantung from Germany and later restored it to China and she cooperated in other ways toward bringing about the ultimate victory but the only thanks she got was the abrogation by Great Britain of their alliance. Further Great Britain along with the United States was complacent when China began to whittle down the fruits of Japan's victory over Russia. Finally the Washington and London naval treaties together with the Nine Power Treaty completely tied Japan's hands. There was bound to be a revulsion to these restrictions and that came with the Manchuria incident in 1931. The Prime Minister said that so strong was the sense of grievance of the Japanese people that the Japanese Government could not, even if it wished, make peace with China on terms which did not assure Japan economic security, and that under existing world conditions such security could not be provided by restoration of the *status quo ante*. He had already given careful thought to the question I had raised with regard to the need for making peace with China and he had come to the conclusion that it would be impossible to dissociate the Far Eastern problem from the conditions of unrest which prevailed in Europe and elsewhere and that this problem is capable of solution by negotiation only when the conditions which lie at the root of the European problem as well as of the Far Eastern problem can be considered.

4. I asked the Prime Minister whether he believed it likely that the American people would look with favor on American collaboration with Japan in approaching the difficulties in Europe when Japan herself was considered to be guilty of the same acts of which Germany and Italy stood condemned and when moreover the press is almost daily reporting acts of Japanese violations of American rights in China. The Prime Minister replied that in respect of the first point he hoped that the American Government at least realizes that Japan had not intended or expected to engage in a war with China. In respect of the second point he admitted that there is justification for complaint but he said that Japan's first preoccupation must be the success of her military operations. Nevertheless if the powers could come together to find by negotiation a solution of the world's troubles these issues involving American rights in China could be disposed

⁵¹ In August 1914.

of without difficulty. In the meantime the Government would continue its efforts to satisfy the American position with regard to the Open Door but one difficulty was the sense of grievance to which he had previously referred.

5. In conclusion the Prime Minister said that this might prove to be the last opportunity to save the world from chaos. He was prepared to sound out Germany and Italy with regard to the holding of a conference such as he had suggested if the President were prepared at the same time to sound out Great Britain and France.

6. He urged on me the supreme importance of secrecy with regard to his approach.

DOOMAN

793.94/15058: Telegram

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

SHANGHAI, May 29, 1939—4 p. m.

[Received May 29—12:08 p. m.]

In the course of a conversation with British Ambassador today latter informed me that the Generalissimo was anxious to see me in Chungking; Generalissimo had two ideas which he doubtless would communicate to me:

(1) That economic measures taken by British and Americans at this time would have a controlling effect upon Japanese, even to point of stopping Japanese activities in China;

(2) That the Japanese were anxious to make peace; that the Japanese were prepared to withdraw forces from Central China provided Chinese stopped fighting; that Chiang was prepared to stop fighting if and when Japanese withdrew; that difficulty lay in knowing when Japanese would withdraw and that the Japanese were prepared to accept mediatory offices at the hands of British and Americans.

I told British Ambassador that in my opinion economic measures against Japan on the part of the United States were doubtful; that while I had seen no Japanese during my visit in Japan, such information as I had through people in American Embassy and Consulates there indicated that Japanese Government was in no way interested in ending military operations in China; that it was the opinion of our people in Japan that economic measures against Japan would very likely precipitate Japanese action directed either at us or the British or the Dutch East Indies. I said that as regards mediation I am convinced that the Japanese Government was not prepared to accept mediation in the face of continued confidence of Japanese military in the success of their movement here.

Repeated to Chungking and Peiping.

JOHNSON

793.94119/547

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

HONG KONG, June 2, 1939.

[Received June 13.]

SIR: There is enclosed herewith a copy of a memorandum prepared by Major McHugh of a conversation which he had with the British Ambassador while in Shanghai recently. I have already reported by telegraph to the Department the British Ambassador's invitation for myself and the American Commander-in-Chief to meet with him the British Commander-in-Chief and the French Ambassador and the French Commander-in-Chief in Shanghai, and my inability to comply with his request and the reasons therefor. I have also reported to the Department by radio from Shanghai⁵² of my subsequent conversation with the British Ambassador, in the course of which he outlined the possible attitude of the Generalissimo in regard to peace proposals. This subject is more adequately covered by the memorandum of Major McHugh which is enclosed.

During the day that I spent at Yokohama I had long talks with Mr. Dooman, Consul General Cameron and Consul Boyce. Later in Kobe I had a long talk with Consul Gourley and his staff. I saw no Japanese. Mr. Dooman informed me of the farewell talks which Ambassador Grew had with the Japanese Foreign Office. I carried away with me a conviction that the Japanese government, while anxious to be on friendly terms with the United States and while anxious to see an end to the military situation in China, was by no means in a position to begin any negotiations with the Chinese authorities on terms which might be acceptable to the Chinese, nor was it prepared to accept any mediatory activities on our part. I carried away also a distinct impression that our Embassy and Consulates in Japan felt that Japan was not feeling any economic pinch such as would drive them to a conclusion of military activities in China to their disadvantage; that the military, at least, believed that Japan could go on indefinitely along present lines, and believed that they would be successful in the end. This conviction is quite at variance with the information which the Generalissimo appears to have conveyed to the British Ambassador, who appears to have sounded him out on the question of peace. It is possible that when I arrive at Chungking and see the Generalissimo he may bring this subject up in a conversation with me, although I have no intention on my part to initiate a discussion of the subject, for I am convinced that mediation, insofar as the United States is concerned, would not be acceptable at this time. I believe that the American Embassy and the other American representatives

⁵² Unnumbered telegram of May 29, 4 p. m., *supra*.

in Japan are convinced that if the United States should impose economic restrictions against Japan, such action on our part in the present state of Japanese feeling, might very likely result in an effort on the part of Japan to counteract such restrictions by forcibly seizing such resources as might be available in the Far East, as for instance, the Dutch East Indies, in order to make Japan independent. I am disposed to share that conviction at the present time. I feel that the Japanese effort by military measures to make a conquest of China is doomed in the end to failure, but I am convinced that the Japanese army is not yet convinced of such failure and that it is still determined to proceed with its program. There is a danger to us and to the British in this attitude. I believe that there is a good deal of war-weariness present among the Japanese people today, that the peak of war fever has passed, and that there is always the possibility that, reacting to the need of giving the Japanese people something in the nature of a success, to justify continued support of the army, and there being no further victories on land possible, the Japanese military may, in desperation, be compelled to seize the International Settlement at Shanghai. I understand that the British Embassy and the British authorities in the Far East are convinced that economic pressure upon Japan at the present moment would bring about a collapse of the Japanese military effort in China and compel the Japanese to seek a peace. It is my feeling that such economic restrictions, while they might have this effect, might on the contrary have the effect of compelling the Japanese to make an effort to give themselves independence of our economic power through seizure of resources such as the Dutch East Indies. But, in any case, intervention on our part at this time to bring about cessation of hostilities, if successful, would leave the Japanese military unconvinced of the ultimate success of their effort and would merely leave a situation not unlike that which existed in Germany, which would have to be taken care of sooner or later when the Japanese had prepared themselves for a further effort. I feel that we should continue to watch the situation; deal with it as it develops, in the hope that sooner or later the Japanese military may, of their own accord, become convinced of the futility of going on. At such a time as this may occur it may perhaps be possible for us to exercise some good offices, but even then we should have to act with caution because I am convinced that the animosity which has been bred among the Chinese people by Japanese military activities on the mainland will be such that no Chinese leader will be able to control his own people and soldiers should the Japanese begin to weaken their hold on any place which they now hold. Retirement of Japanese forces would be accompanied by advance of Chinese and acts of hostility against isolated Japanese and it would be extremely

dangerous for anyone to enter the situation for purposes of mediation with any idea that they could guarantee a peaceful withdrawal or a peaceful advance by one side or the other.

These are impressions which I have collected in the few days that I have had since landing in Japan, during visits in Yokohama, Kobe, and Shanghai. I have set them down in this despatch transmitting Major McHugh's memorandum in order that they may be sent at once to the Department.

Respectfully yours,

NELSON TRUSLER JOHNSON

[Enclosure]

Memorandum by the Assistant Naval Attaché in China (McHugh)

1. I saw the British Ambassador for two hours on the afternoon of May 30, 1939, when we resumed conversation on the general situation in China and especially with reference to possibilities for settling the present hostilities. Sir Archibald, as usual, talked very frankly, reading to me from time to time from despatches which he had sent to London and reviewing what he had learned in Chungking since we had last conversed there on May 5th, the day after the second bombing. He had already at that time been up there two weeks and had seen Chiang Kai-shek twice, going on each occasion on an informal picnic with Madame Chiang and the Generalissimo to the hills outside of the city in order to assure a quiet and uninterrupted conversation.

2. Sir Archibald informed me that he had been on two more such picnics since I had departed. On the first of these (the third occasion) he had sounded out Chiang on the question of peace by inquiring what Chiang could tell him to pass along to his people as to the possibilities for a settlement of the present Sino-Japanese hostilities. Chiang had turned the question back upon him by asking him what he would do if he were in Chiang's place. Clark Kerr had replied by stating: (1) he would forget about Manchuria for the present and concede that point to the Japanese trusting to the grandsons of the present generation to recover this lost territory; (2) hold out on Inner Mongolia and refuse any special concessions there; (3) insist on economic cooperation and not domination in North China; (4) insist on the withdrawal of the Japanese army from China to a pre-war status, but guarantee to the Japanese no anti-Japanese agitation.

3. I inquired at this point whether these points were not in general those which had been previously proposed by the so-called "moderate" group in Japan which we had previously discussed in Chungking (reported by despatch through the Embassy, Chungking). The Ambassador replied in the affirmative. He then said that Chiang had replied that two things had to happen before peace could be discussed

now and that both of them depended upon Great Britain and the U. S. A., namely, economic retaliation against Japan to force her to abandon her program in China, followed by an offer of mediation to settle the present conflict along lines which would guarantee China's continued independence and territorial integrity. I pointed out here: (1) that to date I had heard nothing which indicated that any of the peace proposals had the approval of the Japanese Army and that until this occurred there was no point in discussing the question; and (2) that any power who tried to mediate in the present war would have to be prepared not only to force the Japanese Army to retire, but also to hold the Chinese back. The Ambassador replied with a surprising statement. He said that Chiang had informed him that he had recently received definite information that the Japanese Army were prepared to pull back their forces to their 1937 pre-war positions as a preliminary move to peace negotiations and that this move would be accomplished under the cloak of an Imperial Order or Edict, but that some face-saving gesture such as an offer of mediation by Great Britain and the U. S. A. would be necessary first.

4. I expressed surprise and doubt at this and the Ambassador was inclined to agree, but he said he had informed London when he reported this that although Chiang Kai-shek's information in the past may not have been 100% correct in all instances, it had always had a measure of truth in it. Clark Kerr then said he had inquired of Chiang if the latter felt that he could hold back his troops in the event the Japanese started a withdrawal and restrain them from stampeding after the Japanese, creating a time lag of four or five days in the reoccupation of towns evacuated by the Japanese. Chiang replied that he felt he could do this.

5. I then inquired what Chiang's reaction had been to the four point peace program which he had suggested. The Ambassador replied that the points did not suit Chiang but that Chiang had said he would rather not say at the time what he would be prepared to accept. Clark Kerr had inferred that Chiang hoped to concede less, but was not sure he would be able to achieve this. The Ambassador emphasized however that he had found Chiang still very confident of his ability to carry on the war until the Japanese had to sue for peace. His attitude was by no means that of a man who was seeking a way out. In this connection the Ambassador referred to his first conversation with Chiang at Chungking when the question of the so-called April "counter-offensive" had come up. Chiang had corrected him immediately on the use of the term and had explained that his purpose was merely to keep things stirred up on all fronts so that the Japanese could not concentrate their forces at any one point. Chiang had said that if the Japanese could concentrate they obviously could still break

through and capture places. He did not want the people to build up false hopes only to have them dashed by such an event. He felt that by keeping all fronts active he could eventually wear the Japanese out.

6. The Ambassador then read to me two telegrams he had sent to London in which he had reported his general impressions gained on his recent trip to Chungking. He said he had found the atmosphere more encouraging than during his previous visit; the soldiers now being recruited to be of better quality and with a marked improvement in discipline; and the spirit of the people unaffected by the bombings of Chungking. He stated that the latter had demonstrated that the question formerly put by many people as to the effect of bombing on the morale of the Szechuanese and their attitude toward the Central Government had been answered and that Szechuan would definitely go along with the Government. He found some tendency on the part of individuals to criticize the machinery of the Government and its methods, but no one to oppose the continuance of resistance to Japanese aggression. There was also criticism of the general purpose of the Kuomintang as being pointed more toward its self preservation than toward the welfare of the country as a whole, but stated that both Chu Chia-hua (the Secretary General of the Party) and Chou En-lai (Eighth Route Army Representative) had separately informed him during long conversations that all parties were pulling together at the top and that there was no doubt of continued unity among the leaders.

7. The Ambassador reported that he found complete public confidence in Chiang Kai-shek and the resistance to be more and more of a one man show. He stated his belief that even were Chiang to die suddenly, the resistance would go on until some other leader emerged to coordinate it again utilizing the spirit of Chiang as a symbolic force. The Ambassador stated that he believed the supply of small arms ammunition on hand not only to be adequate for some time to come but that he had reason to believe that the Chinese now had arsenals working which made them independent on this score. He also believed that the new routes of communication being opened up would be sufficient to maintain morale and keep up a fair supply of essentials from outside. He complimented the work of the Ministries of Communications and Economics, but found the Ministry of Finance still "sadly lacking" and "inefficient". I found myself in general agreement with all that he had reported.

8. The Ambassador then told me in strict confidence that there had been a separate peace offer made to Chiang just prior to his recent trip to Chungking. It appears that Sir Robert Calder Marshall of Shanghai had come to Clark Kerr just prior to the latter's departure and had inquired what the Ambassador's reaction would be to any effort on Calder Marshall's part to promote peace talks. Clark Kerr

had told him to go ahead by all means. Calder Marshall then stated that Dr. Alfred Sze had been in touch with Mr. Kodama (former head of the Yokohama Specie Bank and recently placed in charge of the new Hua Hsing Bank that has been organized at Shanghai). The proposal which Kodama had made to Sze was that the Japanese Army was prepared to withdraw from all areas in China except for garrisons at the principal treaty ports, including Hankow. Other conditions if any were not named.

9. This proposal was sent to T. V. Soong in Hong Kong and relayed by him to Chiang Kai-shek who flatly rejected it. When his reply reached the negotiators in Shanghai word was immediately sent back to ask Chiang not to close the door on this avenue of negotiation as "easier terms could be obtained". Clark Kerr told me that he had cautiously broached this subject at Chungking with Chiang and had been told that no proposals involving the garrisoning of China by the Japanese Army would be considered. It was this, in fact, which led to the discussions related earlier in this memorandum.

Respectfully submitted,

J. M. McHUGH
Major, U. S. M. C.

793.94/15058: Telegram

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

WASHINGTON, June 6, 1939—5 p. m.

201. Your May 29, 4 p. m. With reference to the two questions which the British Ambassador informed you would doubtless be mentioned to you by Chiang Kai-shek, the Department has noted the comments which you made to the British Ambassador. In the event that Chiang Kai-shek should bring up with you either or both of the questions, the Department offers for your guidance and possible use additional comments as follows:

1. With regard to the question of the American Government and people taking economic measures, any action which the American Government might take would have to be consistent with the traditional policies of the United States, the attitude of the American people as a whole and the laws of this country. This Government has frequently taken in relation to the hostilities in the Far East action which was parallel to that taken by other powers but it has consistently pursued an independent course in keeping with its traditional policies. While, as the Chinese Government is well aware, public opinion in the United States deplors Japan's actions in China and while the American people have made manifest in practical ways their feeling of friendliness and sympathy for the Chinese nation, it is felt that it would be unwise for there to be raised inquiries or proposals which might obscure the fact that responsibility for any action that this coun-

try might take rests with this country and which might give rise to conjectures with regard to possible foreign involvement of this country, especially at this time when the Congress is considering a revision of neutrality legislation and other legislative projects having a bearing upon foreign affairs of the United States. It is felt that the raising of such questions might tend to embarrass this Government in its endeavor to pursue an appropriate course in the light of the broad policies and interests of the United States.

2. With regard to the question of good offices, this Government has already made to both the Chinese and the Japanese Governments what definitely amount to offers of good offices. We have made it clear to both Governments that whenever both considered it desirable we stood ready to exercise our good offices. The Japanese Government has clearly indicated that it is not responsively disposed toward these approaches, first by its diplomatic silence in regard thereto and second by express statements made by various of its high officials to the press and otherwise that it will not be responsive to offers of mediation and will not tolerate interference by other countries. This Government is constrained to believe that these Japanese officials have expressed the considered determination of the Japanese Government. Although this Government has given much study to the question and continues to give the matter constant attention, we have not been able to envisage in the situation as it has developed to date terms of peace which would appear likely to be acceptable to both the Chinese and Japanese Governments, which would be consistent with principles in which we believe, and which would be fair and just to all concerned. A fundamental interest of this Government is that the settlement by which peace is restored shall be on lines consistent with principles of equity and justice in relation to all concerned. In the absence of an indication by Japan of a readiness to accept an offer of good offices and without previous knowledge that Japan's intentions and desires in regard to peace terms could be harmonized with the general principles above outlined, we would be reluctant to make an approach to the Japanese Government on this matter.

3. In general, the attitude and position of the American Government with regard to the conflict between China and Japan and with regard to the principles which this Government believes should govern relations between and among nations have been made clear in many public statements by high officials of this Government. That attitude and position remain unchanged. The American Government is giving attention and consideration to each phase of the situation as it develops, bearing in mind all its phases. The American Government has consistently endeavored in relations with the Far East, while serving the interests of the United States, to avoid and avert dis-

service to the interests of China. At the present moment the American Government is in no way forgetful of either of these objectives and is intent upon both. The American Government desires to be constructively helpful where possible and as appropriate, but it naturally exercises its own best judgment as to what contribution on its part may be most practicable, opportune and appropriate.

Please repeat to Tokyo this telegram and your telegram under reference.

Repeated to Chungking and Peiping.

HULL

793.94119/557

*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Ballantine)*⁵³

[WASHINGTON,] June 7, 1939.

The Japanese Prime Minister's message to the Secretary, transmitted through the Foreign Office and contained in Tokyo's no. 234, May 18, 5 p. m.,⁵⁴ in essence advances the thesis that conditions making for true world peace can only be obtained through assuring to nations their "proper places in the world", and it is a scarcely disguised plea that the political thinking of this Government with regard to the so-called "have not" nations be revised.

Tokyo's 245, May 26, 8 p. m.,⁵⁵ reveals a growing concern on the part of Japan as to its future security. This concern appears to be inspired by (1) Anglo-Soviet negotiations on the subject of a military arrangement, (2) lack of confidence in the stability and military effectiveness against the democracies of the anti-Comintern powers, (3) doubt whether Japan could maintain its neutrality in the event of a European war, and (4) the prospect of the United States becoming involved in a European war and the consequent likelihood of the United States and Japan being drawn into opposite camps. Certain influential Japanese are therefore convinced that Japan should not tie itself up too closely with the anti-Comintern powers and should try to improve Japanese relations with the democratic powers, and to this end it is even suggested that Japan might eventually and under certain conditions moderate its peace terms to be offered to China.

Tokyo's 242 of May 23, 11 p. m., discusses from another angle a possible future course of action by Japan to establish its future security. The Japanese Prime Minister has indicated that the Japanese

⁵³ Notation by the Chief of the Division (Hamilton), who initialed the memorandum: "Shown to Mr. Hornbeck and to Mr. Grew." The latter was on home leave from his post in Japan.

⁵⁴ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 1.

⁵⁵ *Ante*, p. 40.

people feel that Great Britain and the United States were complacent when China began to whittle down the fruits of Japan's victory over Russia, that the only thanks Japan got for its cooperation in the World War was the abrogation of the Anglo-Japanese alliance, and that the Washington and London naval treaties and the Nine Power Pact completely tied Japan's hands. So strong is the sense of grievance of the Japanese people over those developments that the Japanese Government believes it can make no peace with China which does not assure Japan's economic security and that under existing world conditions such security cannot be provided by restoration of the *status quo ante*. The Prime Minister indicated, however, that he has come to the conclusion that it would be impossible to dissociate the Far Eastern problem from the conditions of unrest in Europe and elsewhere and that this problem is capable of solution by negotiation only when the conditions which lie at the root of the European problem as well as of the Far Eastern problem can be considered. He said that if the powers could come together to find by negotiation a solution of the world's troubles those issues involving American rights in China could be disposed of without difficulty. He said also that he was prepared to sound out Germany and Italy with regard to the holding of a conference of the powers for the consideration of European as well as Far Eastern problems, if the President were prepared at the same time to sound out Great Britain and France.

The statement of the Japanese Premier that Japan's first preoccupation must be the success of Japan's military operations reveals how essential the Japanese regard the upholding of the tradition of the invincibility of Japanese arms from the point of view of the national prestige and the prestige of the Japanese army at home. In other words, Japan will endeavor to insist that any peace to be concluded with China must be on the basis of the assumption, if not the actuality, of Japanese military victory. While it is not to be supposed that Japanese leaders contemplate the possibility of military defeat at the hands of the Chinese, it is believed that the lack of progress in their continental program, in the success of which their prestige is also involved, and the possibility of the eventual collapse of that program as a result of the steady deterioration of the national strength from the prolonged hostilities, are giving Japanese leaders no little concern. It may therefore be in the minds of the Japanese that a possible way out for them from the present apparent impasse might be offered if there could be convened a world conference such as the Japanese Prime Minister has suggested for the purpose of considering means of promoting world peace through appeasement and satisfaction of the claims of the "have not" powers.

The *Astoria* visit has undoubtedly raised hopes in Japan that the United States might be willing to be of service in the matter of such

a conference. Should such a conference be called by, for example, the United States, the Japanese might then adopt a formula to the effect that out of deference to the United States and out of their sincere desire for world peace they would be willing to participate in the conference and contribute to its success even at the sacrifice of their real interests. On such a basis they might be able to justify to the Japanese public a withdrawal from or modification of their announced program in China. They would expect, however, to bring to such a conference various claims designed to promote their political and military security and meet their economic needs.

The Government of the United States would, of course, wish to contribute in every appropriate way to the cause of world peace. While FE⁵⁶ is not competent to discuss the advantages and disadvantages of such a world conference in relation to the situation in Europe and of our interests involved in that situation, there occur to mind from the point of view of the situation in the Far East and the interests of the United States in the Far East certain objections to an initiative being taken by this Government at this time in calling such a world conference. These objections are as follows:

1. The taking of the initiative by the United States would place Japan in a better position for bargaining than if Japan should become forced by circumstances to take the initiative in the matter of the negotiation of a peace settlement.

2. As already indicated, such action by the United States might provide a means of escape for Japanese militarism and enable it to emerge from the conflict with its prestige comparatively unimpaired, whereas if matters take their natural course there might be a better chance that the Japanese military clique would eventually so suffer in prestige as to weaken its position in the Japanese Government.

3. The compromises which would undoubtedly be involved in any peace settlement would probably leave both the Japanese and the Chinese people dissatisfied with the settlement reached and consequently the United States would be likely to become the object of the ill will of both the Japanese and the Chinese people.

4. Any general program for the solution of the conditions of unrest throughout the world such as is envisaged by the Japanese Prime Minister would probably involve questions of concessions by the "have" powers. There is, therefore, inherent in such a program the question of how far the United States could go in offering Japan concessions which might satisfy Japan and induce it to abandon its present policies. Although Japan is of course primarily concerned with desiderata in Asia the Japanese might adopt a more conciliatory attitude in return for the removal of the discriminatory features in our immigration laws or for tariff concessions. However, it cannot be

⁵⁶ The Division of Far Eastern Affairs.

anticipated that Congress would be likely to abandon in principle Asiatic exclusion even if such abandonment did not mean a modification in practice of our present immigration policy. With regard to tariff concessions, not only would suggestions of possible action by this country undoubtedly give rise to protests from the affected American industries but it would also be doubtful whether, so long as the Japanese continue to pursue the closed economy now being practiced in Japan, there is room for a reciprocal trade agreement with Japan except on a one-sided basis operating in favor of Japan. Perhaps the only thing we could offer Japan of an important practical value would be an undertaking that this Government would interpose no objection to long-term loans and credits to Japan by American bankers and exporters, contingent, of course, upon the conclusion by Japan of a settlement with China voluntarily entered into by the National Government of China and considerate of America interests. It might be possible even for the Government of the United States under such conditions to grant credits to Japan for the purchase of American cotton and other agricultural products which would be of material help in the economic rehabilitation of Japan and at the same time benefit our agricultural interests.

5. Action by the United States might be premature from the point of view of effecting a peace settlement of a lasting character. It is difficult to conceive of any peace settlement being acceptable to Japan at the present time which would not leave Japan in military control of the five northern provinces of China. Even assuming that Chiang Kai-shek would be willing to conclude a peace on such a basis, it is doubtful whether he could control unreconciled Chinese elements and make them abide by such a peace settlement. Those elements would thus be likely to commit acts disruptive of peace in the border territories, thus producing a repetition of the same vicious circle of conditions which created a chronic turmoil in Sino-Japanese relations in the years following the Japanese occupation of Manchuria in 1931. Consequently, such a settlement would be likely to prove to be no more than a temporary respite from hostilities which would be resumed after the opposing forces had had a breathing spell. With large areas of China remaining under Japanese occupation, it is doubtful whether a temporary respite from hostilities would be as advantageous to China as to Japan.

For the time being it would seem that there is no action which this Government might usefully take in regard to the subject other than to continue to indicate to the Japanese when they bring up the subject, as Mr. Grew already appears to have done, that, until the Japanese Government is prepared to give evidence of an intention to make peace with China on terms which the Chinese Government could accept and which would be considerate of the rights and interests of

the United States and other countries, this Government would be unable to give favorable consideration to Japanese suggestions for discussions between the Japanese and American Governments on the subject. It is believed that the manifestation of such an attitude on our part would not result in an opportunity being lost for useful contribution by this Government to the cause of peace in the Far East.

On the other hand, it should be recognized that there are arguments in favor of initiative by the United States directed toward bringing about peace negotiations, the principal ones being that it would tend to hasten peace (even though that peace might prove to be only a truce), and thereby incidentally remove the constant risk of our involvement in war in the Far East; that it would tend to avert a possible eventual complete collapse of China or Japan or of both; and that it might offer Japan the only alternative to the conclusion of a military alliance with the anti-Comintern powers. Granting the force of these arguments, it is believed, nevertheless, that objections to American initiative, at least for the present, far outweigh the arguments in favor thereof.

NOTE: It will be recalled that in connection with the approaches under discussion which have been made to Mr. Grew and to Mr. Dooman by the Japanese Prime Minister and by the Japanese Foreign Minister, the Japanese Prime Minister emphasized the fact that the approaches should be regarded as secret and highly confidential. According to information communicated in Mr. Dooman's strictly confidential telegram 265, June 8, 7 p. m.,⁵⁷ the Japanese Foreign Minister has apparently disclosed to the Polish Ambassador at Tokyo that the Japanese Government has taken steps to explore the views of the American Government with regard to the possibility that Japan and the United States might collaborate toward bringing about a *détente* in Europe.

793.94/15080 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, June 10, 1939—1 p. m.
[Received 5:50 p. m.]

272. Peiping's 249, May 31, 1 p. m.⁵⁸

1. From a source believed to be reliable it is learned that relations between some of the more important members of the Provisional Government namely Wang Keh Min, Tang Erh Ho, Wang Ying Tai, Chu Cheng and Yu Chin Ho on the one hand and Japanese advisers

⁵⁷ *Ante*, p. 45.

⁵⁸ Not printed.

on the other including Kita continue to be inharmonious. At a conference a few days ago the above mentioned Chinese leaders aired their grievances quite freely to the Japanese charging them with having failed in their understanding of the Chinese, having ignored their livelihood, having shown no respect for Chinese education and culture and having attempted to Japanize Chinese education. Among other things they criticized the behavior of the Japanese troops and asked for more considerate treatment by them of the Chinese people. Subsequently Kita let Wang Keh Min know in writing that he was greatly displeased by the criticism and by the attitude of the Chinese leaders and accused them of being anti-Japanese.

2. The method by which the information has been allowed to become known creates a suspicion that it may have some relation to the rumored coming of Wang Ching Wei to Peiping. It is probable that it may represent a step in that direction.

Repeated to Chungking, code text by air mail to Tokyo.

LOCKHART

893.102 Tientsin/278: Telegram

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

CHUNGKING, June 19, 1939—9 a. m.
[Received June 20—3 a. m.]

399. Department's 201, June 6, 5 p. m.

1. I called on the Minister for Foreign Affairs on the 16th and on General Chiang on the 17th. Both were engrossed in the British-Japanese controversy at Tientsin⁵⁹ almost to the exclusion of other subjects. The Minister for Foreign Affairs emphasized his view which he asserted was supported by the Japanese military spokesman's statement at Tientsin on the 13th (Tientsin's 95, June 15, 6 p. m.⁶⁰) that the dispute had been extended beyond the treatment of a few alleged terrorists to include a demand for a complete reversal of the pro-Chinese policy of Great Britain. General Chiang expressed the conviction that capitulation by Great Britain to Japan at Tientsin would mean the nullification of the Nine Power Treaty and the substitution of Japanese interests, prestige and influence in China for those of Great Britain and the United States.

2. In my call on General Chiang I was accompanied by Peck and McHugh. Madame Chiang interpreted. At Chiang's desire I first gave him a somewhat detailed account of my observations on the Burma and the Chungking-Yunnanfu Highways. Then he inquired what views my Government held toward Japanese actions at

⁵⁹ See vol. iv, pp. 163 ff.

⁶⁰ Not printed.

Tientsin. I replied that the position of the American Government with respect to the present hostilities had been fully and publicly announced and that it had not changed. He wanted to know what my Government anticipated would be the outcome of the dispute, particularly whether it thought the Japanese would occupy the British Concession with troops. When I expressed doubt whether the Department had formed any opinion he pressed me for my personal view. I disclaimed any ability to foresee the outcome but observed that Japanese military strength was dominant at Tientsin and that if the concession were isolated long enough it might have to yield through sheer starvation. I said that the dispute was between the Japanese and British Governments and only they could say how it could be ended.

3. After conversation on other subjects, Chiang reverted to the earlier one and asked permission to express his opinion which he said was different from mine. He said that one of Japan's main objectives was to persuade the United States that the quarrel was with Great Britain alone. If Great Britain's defense of treaty rights could be crushed at Tientsin, Japan could repeat the process elsewhere in China and a complete transformation in the Orient would result. The rights of other treaty powers including the United States would be swept away and China's position would be even more seriously damaged. Yet the remedy, he insisted, was simple. Japan was bold at this juncture because of a belief that it had isolated Great Britain and convinced the United States and other powers that they were not involved. He asked me to inform the Secretary of State that it was his own absolute conviction that if the United States should let it be known that the American Government regarded its interests as involved the Japanese "front" would collapse.

He inquired whether our Government had any intention of mediating to settle the dispute. I replied that such mediation would obviously be impossible unless both sides invited it and I saw no likelihood of that; the American Government would never lend its assistance to any matter contravening its announced policies. Chiang made the startling suggestion that I proceed to Tientsin to offer my services as mediator. With all politeness I rejected this idea but he urged that I submit it to the Secretary as coming from him and I assented.

4. Chiang went on to say that all that was really necessary to turn what was potentially catastrophe into a minor incident was for the American Government to let it be known publicly that it was prepared to send some of the American Marines now at Tientsin into the British Concession at the slightest threat that the rights of American citizens were to be invaded. He could guarantee that no Marines would have to be sent and that the Japanese attack against the British Concession

would cease. Since the sanctity of the Nine Power Treaty and the whole position of American nationals in the British Concession at Tientsin and elsewhere were involved in this question it was the right and even the duty of the United States to come to the assistance of Great Britain at this juncture; if this were not done he felt that Great Britain would almost inevitably capitulate to Japan with results as already described.

In view of Chiang's direct request that I transmit his views to the Secretary of State I told him I would do so, but I said that I should feel less than honest if I did not point out to Chiang frankly that no step so grave as an implied use of force against Japan could be taken by the American Government without consulting Congress and that in any event it was inconceivable that the United States should employ force or the threat of force to protect administrative rights of a British Concession. His reply to this was that the action he proposed would be in defense of the rights of American nationals.

6. During this interview Chiang mentioned but did not dwell on the subject of general mediation as the British Ambassador anticipated he would do. He may intend to do this at a second visit I have agreed to pay him in a few days.

7. Chiang urged, as a means of bringing to the fore the principles involved in the controversy at Tientsin, that the American Government request from the Japanese Government in positive terms a reply to our note of December 30, 1938.⁶¹

8. While General Chiang's proffer of advice on the implementation of American Government [policy] was a step unusual in diplomatic practice, I was not inclined to take offense in view of his earnestness, our long established personal relationship, and the deferential Chinese terms in which his opinions were couched. I was carefully noncommittal in regard to his contention that compromise by Great Britain with the Japanese at Tientsin would weaken the whole treaty structure in China and adversely affect American interests but this has seemed to me self-evident from the beginning. The United States has no Concession in China but it is interested in two international settlements⁶² and its citizens for decades have been identified with the Concessions of other nations. Moreover, if as seems to be the case Japanese measures at Tientsin are in reality designed to compel Great Britain to desist from support of the National Government, similar retaliatory measures sooner or later against the United States appear inevitable if the campaign against Great Britain succeeds. I

⁶¹ Note No. 1153, from the American Ambassador in Japan to the Japanese Minister for Foreign Affairs, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

⁶² At Shanghai and Amoy (Kulangsu); see vol. IV, pp. 1 ff. and 108 ff.

am convinced that the ultimate aim of Japanese policy is to oust all Western interests and influence from Asia irrespective of nationalities. Furthermore we have made no secret of our condemnation of Japanese policy and sympathy with China's cause.

Repeated to Peiping. Peiping air mail code text to Tokyo.

JOHNSON

793.94/15174

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

No. 244

CHUNGKING, June 20, 1939.

[Received July 7.]

SIR: I have the honor to refer to this Embassy's telegrams Nos. 129, February 23, 1 [3] p. m., 144, March 1, 10 a. m. and 268, April 17, 10 a. m., all dealing with war conditions in China's northwest, and to enclose in this relation a copy of an article⁶³ on the subject "The Northwest Fights", which relates some of the observations, impressions and experiences of Mr. Andrew T. Roy, an American citizen affiliated with the University of Nanking, who together with two other Americans, Dr. Robert Brown and Miss Joy Homer, toured various areas in southwestern Shansi and southeastern Shensi during the month of May 1939. The group interviewed General Yen Hsi-shan at his headquarters at Ichuan, Shensi, and Mao Tse-tung and other Chinese communist leaders at Yen-an, as well as the Shensi provincial authorities at Sian.

Mr. Roy's account, like the observations contained in the telegrams under reference, reflects an atmosphere of optimism, confidence and hope for the Chinese cause in the northwest. It portrays the birth among the Chinese of a new spirit of self-reliance and resolution born of adversity; it once more evidences an amazing ability on the part of the Chinese to adapt themselves to kaleidoscopic changes on conditions and circumstances and to overcome the numerous difficulties confronting them; it indicates that they have devised plans for meeting Japanese aggression and that creditable if unspectacular results are being obtained through pursuance of these measures; and lastly it fortifies the conviction that the Japanese have a very formidable if not insuperable task before them in attempting to eradicate the spark of resistance in Shansi. The evident failure of Japanese military operations in Shansi thus far in 1939, notably the attacks on the Chinese bases at Wutai and in the Chungtiao mountain range of south Shansi, and their repeated failures to cross the Yellow River into Shensi, are eloquent testimony of the magnitude of the difficulties with which they are beset in that area.

⁶³ Not reprinted.

Mr. Roy's comment concerning the status of relations between the National Government and Chinese communist authorities (see pages 27-29) is of particular interest and is added evidence of the seeming genuine desire of the Chinese communists to cooperate with the Kuomintang both during and after the present war in the building of new China under a democratic form of government. The sole desiderata of the Chinese communists appear to be that they be ensured of the right to maintain their party organization and carry on political activities without restrictions; in other words, they desire to be placed on a basis of unrestricted equality with the Kuomintang as an internal political organization. The feeling here at Chungking among informed observers is that General Chiang Kai-shek, who has at various times since the outbreak of hostilities voiced his scorn of certain sections of the Kuomintang for their ineptness and reactionary conservatism, is likely to work for some such peaceful solution of the Kuomintang-communist dilemma. But it is only natural to think that certain influential elements in the Kuomintang will exert every effort to sabotage cooperation between the two organizations and will bend their power to ensuring the continuance of the Kuomintang as the sole ruling organ and, of course, of their own positions of influence. It is not at all unlikely that the Generalissimo may find it necessary to liquidate these latter elements in the Kuomintang if he is to proceed unhindered with the work of national reconstruction.

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94/15263

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

No. 269

CHUNGKING, July 11, 1939.

[Received July 29.]

SIR: I have the honor to enclose as of possible interest a copy in translation⁶⁴ of the text of a radio speech delivered by Chou En-lai at Chungking on May 31, 1939 on the subject "The Center of Importance in the Second Stage of the War of Resistance". The Department will recall that Chou is an influential member of the Chinese communist party, that he was instrumental in obtaining the release of General Chiang Kai-shek at Sian in the closing days of 1936, that he is at present Vice Director of the Political Affairs Board of the Military Affairs Commission, and that since the beginning of the present Sino-Japanese conflict he has served in a liaison capacity between the National Government and Chinese communist authorities. It is common knowledge that he is the one leading Chinese communist who enjoys the respect and confidence of the Generalissimo.

⁶⁴ Not printed.

It is well known that Chou's views on political and military strategy command respect in Chinese circles. Moreover, he is regarded as competent to discuss the problems of the so-called "occupied areas" because that today is his special field of activity and because he has recently returned to Chungking from an extensive tour of investigation of the war areas of Chekiang, Kiangsu and Anhwei.

The burden of Chou's address is to point out that in the second stage or period of the conflict (which is regarded as having commenced with the fall of Hankow and Canton in October 1938) the main theater of operations is no longer on the main fronts where the opposing armies face each other but in the areas behind the Japanese lines. Chou asserts that having failed to crush Chinese military resistance or to persuade the Chinese people to accept peace terms, the Japanese militarists have been driven to a third alternative, namely, reconstruction in the "occupied areas" to the end that the resources of these areas may be utilized to overcome the existing military deadlock and to accomplish the Japanese object of creating a "new order" of their own fashioning on the Asiatic mainland. Chou considers it significant that Japanese activities have centered in the "occupied areas" during the past six months, including the conducting of extensive military campaigns looking to pacification of the guerrillas and the development of puppet regimes, and comes to the conclusion that these moves have not come up to the expectations of the Japanese. He utters a warning, however, that the Japanese militarists may be expected to exert even greater efforts in this direction in the future, and accordingly exhorts the Chinese people to frustrate the Japanese strategy through wide development of guerrilla warfare and the resultant exhaustion of the Japanese. To achieve the former he calls for the development of additional guerrilla bases in the "occupied areas" and for the accomplishment of the latter he advocates the continuous harassment of the Japanese on all fronts. Chou believes this policy can be executed and calls upon the Chinese people to cooperate in the building of bases behind the Japanese lines in order to defeat the Japanese through the policy of attrition.

There is also enclosed a copy of extracts from a message,^{64a} as published by the Central News Agency, issued by General Chiang Kai-shek to the people of the "occupied areas" on the occasion of the second anniversary of the Lukouchiao incident. This message also emphasizes the importance of the "occupied areas" and the part they must play in the future stages of the conflict.

It is the Embassy's observation that there is an obviously increasing tendency on the part of the Chinese to divert their military strength from frontal warfare to guerrilla tactics and that this movement is

^{64a} Not printed.

gaining impetus with the passage of time. It is the strategy which the Chinese communists have been advocating since the commencement of hostilities and which appears to have been adopted by the Chinese high military command following the significant military conference held at Heng Shan in November 1938. Reference to the speeches of General Chiang Kai-shek in the earlier stages of the conflict will show that he had the policy of guerrilla tactics in mind and that he was only waiting the development of a set of circumstances, such as the loss of China's most important lines of communications and industrial centers and of Japanese penetration into the interior and dispersion of troops, to put such a policy into effect. It is becoming increasingly apparent, as Chou En-lai so clearly points out, that the outcome of the Sino-Japanese conflict will be decided in large measure by future developments in the "occupied areas"; and it seems equally clear that the trend of these developments will be dependent to a large extent upon the skill and efforts of the Chinese themselves in waging guerrilla warfare.

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94119/553 : Telegram

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

SHANGHAI, July 12, 1939—1 p. m.

[Received July 12—10:40 a. m.]

590. Wang Ching Wei's activities. From a well informed Chinese having contacts with the Japanese the following interesting but unconfirmed information has been received. A conference was convened at the Japanese Consulate General here on July 8 at which Wang Ching Wei, representatives of the Japanese Military and Naval Headquarters in Central China, Japanese diplomatic and consular officers and representatives of the "Reformed" [and] "Provisional" government[s] were present. At this conference it was decided, first, that a more extensive "peace" movement should be undertaken before the actual establishment of a new central government the inauguration of which would be postponed for several months; second, that there should be a preparatory propaganda period during which peace propaganda should be disseminated over as wide an area as possible; third, that following this period a so-called "people's conference" should be convened which should create and select representatives to participate in a "peace assembly"; fourth, that the "assembly" should request Wang Ching Wei to become its chairman which office he would accept; and, fifth, that the "peace assembly" should issue manifestoes expressing the sincere desire of the Chinese people for

peace, should issue telegraphic appeals to the various foreign powers stressing the widespread desire among the Chinese people for a cessation of hostilities and should request the powers to cease giving assistance to the National Government. According to the informant mentioned, the Japanese anticipate that the carrying out of this program will probably take from 2 to 3 months and was decided upon as likely to be more effective vis-à-vis the foreign powers and the Chinese people from whom it will purport to originate than the issuance of a peace appeal by a new central government.

Repeated to Chungking, Peiping and Nanking. Air mail to Tokyo.
GAUSS

740.00/1890: Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, July 12, 1939—6 p. m.

194. 1. On occasion of Japanese Ambassador's call on July 10⁶⁵ he expressed a desire that I comment on the question, raised by Mr. Arita⁶⁶ with Mr. Grew, of action by our two Governments directed toward averting war in Europe. I told him that we regard the preservation of peace of such supreme importance to the future of all nations that we make a distinction between peaceful countries, without reference to their form of government, and countries which are threatening military conquest; that we will collaborate with every peaceful nation and have indicated our desire to cooperate in every practicable way toward peace and toward a restoration to normality of international finance and commerce; and that we have made earnest pleas to the nations of Europe looking to the adjustment by peaceful means of their economic and other relations. I intimated that, while Japan might itself have made or may be making similar efforts, inasmuch as it might appear to other nations that Japan is engaged in military operations for purposes of conquest, Japan might, by bringing this situation to an end, exercise its fullest influence along with the United States and other countries in efforts to discourage aggression in other parts of the world.

The Ambassador made no particular comment other than to refer to and deny reports that Japan might enter into a military pact with Germany and Italy.

2. The Ambassador said also that he would be interested in anything that I might have to say in regard to this Government's concern over the possible detriment to American interests arising from possible

⁶⁵ See memorandum of July 10, *Foreign Relations, Japan, 1931-1941*, vol. 1, p. 656.

⁶⁶ Hachiro Arita, Japanese Minister for Foreign Affairs.

Japanese policies for permanent control over China and in regard to the reported apprehension of this Government that the Japanese occupation of Hainan is part of a plan of permanent military conquest, subjects which the Ambassador said had been mentioned to Mr. Grew by the Japanese Foreign Minister shortly before Mr. Grew left Tokyo.

In regard to the first point I referred to the fact that for 6 years I had been urging upon his Government the view that the world was large enough for all nations and that great progress of the whole world would flow from cooperation along progressive and mutually helpful lines.

In regard to the second point I said that while existing American rights and interests in the Far East are very important a paramount consideration was whether all of China and the adjacent islands were to be disposed of by Japan as was Manchuria, with the observance of treaties abolished, international law destroyed and the door shut and locked except as to preference for Japanese subjects. I said that I need not speculate upon how Japan would feel if it were announced that the western hemisphere and a part of Europe were to be foreclosed against Japan in a similar way. I observed that the interference which was taking place beyond all possible military requirements with the rights and interests of third power nationals all over China aroused resentment of the governments whose nationals are thus affected, that Japanese businessmen were being permitted to step in to the places of American and other businessmen who were being obliged to abandon their businesses, and that it was these circumstances and indications which gave rise to American apprehension that, as the "Manchuria-izing" of all China proceeded, American rights and interests might be permanently jeopardized or held in abeyance by Japan.

I also pointed out, speaking from my viewpoint, that efforts by any nation to dominate a large part of the world could result only in disaster to all and that I had endeavored for 6 years to urge this general idea upon Japanese statesmen.

HULL

793.94119/556 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, July 15, 1939—9 p. m.

[Received July 15—8 p. m.]

350. Dr. Leighton Stuart has left (accompanied by Philip Fu) Peiping for Chungking at the instance of Dr. H. H. Kung.⁶⁷ Some

⁶⁷ Chinese Minister of Finance.

significance may be attached to this visit especially since it is understood that Kita and Wang Keh Min are cognizant of the visit and that Kita is using Stuart as a means of communicating views (believed to relate to possible peace terms) to Kung and/or other responsible Chinese officials.

Repeated to Chungking.

LOCKHART

898.00/14411

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

No. 280

CHUNGKING, July 18, 1939.

[Received August 5.]

SIR: With reference to the Embassy's telegram to the Department No. 174, dated March 13, 1939, 5.00 P. M.,⁶⁸ regarding the "National Spiritual Mobilization" program, on the success of which General Chiang Kai Shek has said "the fate of the nation" depends, I have the honor to observe that to date efforts to put the program into effect on a national scale appear to have been negligible; that while the program has evoked a response among certain Chinese in the International Settlement at Shanghai, it seems to have aroused little interest among officials at Chungking; that there is reason to believe that one of the program's objectives is to counteract Communist influence through "mobilization of the masses" under Kuomintang auspices; that the program may, if carried out along lines originally indicated, tend to foster nationalistic spirit, but that it is doubtful whether it will add greatly to the spirit of resistance inspired by the example of General Chiang, and by resentment against the Japanese aroused among people who have suffered at their hands.

[Here follow details of program.]

On the other hand, it is quite apparent that the success of the Communists, and of provincial leaders such as Marshal Yen Shih-shan in Shansi and Generals Pai Chung-hsi and Li Tsung-jen in Kwangsi, in "mobilization of the masses" has not gone unnoticed by members of the Kuomintang, and the belief that one of the objectives of "National Spiritual Mobilization" is to make China safe for the Kuomintang is entirely plausible when one considers the emphasis placed on loyalty and obedience to the Kuomintang in the handbook previously referred to. The deep-seated antipathy to the Communists entertained by certain Kuomintang leaders lends further credence to this theory.

Opposition to, and distrust of the Communists found in Kuomintang circles is exemplified by remarks made to a member of my staff

⁶⁸ Not printed.

by the Deputy Secretary-General of the Central Executive Committee to the effect that the party would endeavor to make use of the Communists as long as hostilities lasted, but that no pains would be spared to prevent the Communists from gaining power sufficient to threaten the position of the Kuomintang—especially after the war; and that having been associated with Mao Tse-tung and other Communist leaders in Canton in 1925, he was convinced that their ultimate aim was to destroy the Kuomintang. The “spiritual mobilization” program thus offers a possible means of increasing the power of the Kuomintang in all areas not under the direct control of strong regional leaders, such as the Communists and Marshal Yen. In this connection, there is reason to believe that if both the Kuomintang and the Communists survive the present hostilities there is a prospect of a bitter struggle between the two groups for control of post-war China.

That there is serious friction between National Government authorities and Communists in Shansi is clearly indicated by American observers returning from that region—one of whom was there barely a month ago. For the time being, however, the Kuomintang is making no attempt to force its “spiritual mobilization” program on either the Communists or Marshal Yen’s followers. Thus in Shansi and Shensi “spiritual mobilization” is carried on without benefit of the Kuomintang.

The most useful purpose of the program in its present stage of development appears to be to dramatize and explain in language easily understood, through the medium of the “National Pact”, the things which a patriotic Chinese should not do. If the oath is taken seriously by all Chinese in unoccupied areas, and by as many as can be reached in the occupied areas, it may tend to counteract the effects of war-weariness and apathy which are bound to undermine morale if the “Second Period of Resistance” lasts too long. It is too early, however, to judge the extent to which the “National Pact” is influencing the masses.

In the light of the foregoing considerations it is difficult to believe that the “National Spiritual Mobilization” program has, since its inception, had any material effect on the prosecution of the war, or that it is, in its present form, likely to have any profound influence on the outcome of hostilities. Partisan politics, lack of effective means of propaganda, the individualistic natures of government officials and of the man in the street—all constitute obstacles not easily overcome under present conditions.

It must not be forgotten, however, that “spiritual mobilization” of a really effective sort is inspired by the leadership of General Chiang, and by the resentment against the Japanese aroused among people

who have suffered as a direct result of the invasion of China. The Chinese who are resisting the Japanese invasion—either by force of arms or through obstructionist tactics at which they are so adept, realize that resistance is costly and painful, but appear convinced that living under Japanese rule would be even more painful. Whether the “National Spiritual Mobilization” program under discussion succeeds or not—as a propaganda campaign—there is no reason to believe that the spirit of resistance growing out of resentment against the Japanese and their methods will not continue to constitute the most potent of all the forces now operating to create a strong national spirit in China.

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94119/558 : Telegram

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

CHUNGKING, July 21, 1939—9 a. m.

[Received 9 a. m.]

450. Peiping's 350, July 15, 1 [9] p. m. Hollington Tong⁶⁹ came to see me yesterday and said that in order to dispel any misunderstandings that might arise over the prospective visit of Stuart he had been instructed to inform me that Stuart was not coming to Chungking to discuss peace. He said that Stuart had written saying that there were methods whereby Wang Ching Wei might well be prevented from becoming a puppet of Japanese and Dr. Kung, as was known to me, had invited Stuart to come to inform Chungking of these methods. He said that for some time Wang Keh Min had been anxious to leave Peiping and that Chungking was trying to help him. I inferred that Wang Keh Min was known or believed in Chungking to be cognizant of the purpose of Stuart's visit.

Tong said that on a visit which Stuart had made last year he had brought peace suggestions in which Wang Keh Min was then interested but that Chiang had said to Stuart in his presence that there were only two possible outcomes of the Sino-Japanese difficulties, success or failure for China and that he, Chiang, placed anything short of success in the category of failure. I inferred that he meant that Chiang did not intend to make peace by compromise. Tong stated that it was the intention of the Chinese Government to inform the United States Government should peace be discussed.

Repeated to Peiping.

JOHNSON

⁶⁹ Chinese Vice Minister for Information.

793.94119/559 : Telegram

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

CHUNGKING, July 24, 1939—1 p. m.

[Received July 24—8:50 a. m.]

457. I saw Stuart yesterday who is here on invitation of Kung (reference my telegram 450 July 21, 9 a. m. and Peiping's 350, July 15, 1 [9] p. m.) and he confirmed Tong's statement that he is not here with peace proposals. He allowed me to infer that he was here at Kung's invitation and really did not know what he or Chiang might have in mind. I suspect that he is interested in trying to help Wang Keh Min leave Peiping. He stated, in the course of conversation regarding Wang Ching Wei, that Japanese scheme for latter was for him to attempt to lure followers from Central Government with funds supplied by Japanese from customs moneys and later to start a civil war against Chiang, the idea being that foreign governments would have to give *de facto* recognition to his government as they had to such governments in the past.

Repeated to Peiping.

JOHNSON

761.93/1666

The Chargé in the Soviet Union (Grummon) to the Secretary of State

No. 2517

Moscow, July 27, 1939.

[Received August 22.]

SIR: I have the honor to inform the Department that . . . here, called recently at the Embassy and furnished certain information in strict confidence relating to Soviet Policy in the Far East,

. . . asserted on the one hand that China is obliged because of its relative weakness to endeavor to obtain as much assistance as possible from the Soviet Union, and that China is grateful for the aid which has been rendered by that country. He declared on the other hand that responsible Chinese leaders entertain no illusions as to the real aims of the Soviet Union, namely, as he expressed it, "to render no more assistance to China than is sufficient to enable it to continue the war with Japan". For instance, he said, when China requests a thousand Soviet airplanes for the purpose of striking a decisive blow in the air it receives a hundred.

In respect of assistance in the form of trucks, . . . asserted that two years ago the Soviet authorities informed China that the Soviet Union did not possess a sufficient number thereof for its own needs

and that consequently no aid of this nature could be rendered. Since that time, he stated, no trucks have been delivered to China. It is not unlikely, he added, that the Soviet Union has been unwilling to deliver trucks because China has not been able to comply with the Soviet Union's request for certain Chinese raw materials. China, he continued, is still able to pay, in part at least, for its purchases from the Soviet Union in the form of cotton and tea, but has not been able because of war conditions to furnish the Soviet Union, as requested by the latter, tungsten, antimony, and a number of other minerals found in China.

In reply to an inquiry as to whether he could give any figures regarding the number of airplanes which the Soviet Union has already furnished China, he replied that the various secret Chinese missions which have been sent to Moscow for the purpose of arranging such transactions have been requested by the highest Soviet authorities to hold such information in the strictest secrecy. He intimated that even he is not kept fully informed in respect of Soviet military assistance to China. Moreover, he complained that he had never visited a Soviet airplane factory, that he was not able to arrange meetings with the higher Soviet military officials for the purpose of discussing matters of importance, and that only members of the special Chinese missions were able to have any real contact with the highest Soviet officials.

In reply to a question as to whether he considered that the Soviet Union's principal interests now lie in the Far East, he returned that such was his opinion. He noted in this connection that the Soviet Union is endeavoring not only to develop as rapidly as possible industrially and agriculturally its own territory in the Far East, but is also constantly strengthening its hold on Chinese territory such as Outer Mongolia and Sinkiang. In this connection he stated that the Soviet authorities had frankly admitted to the Chinese officials about two years ago that for twenty years at least China could rest assured that the Soviet Union would not undertake offensive action in the Far East and would not seize directly any Chinese territory, but that subsequently "China would have to look out for itself". . . . then ventured the opinion that perhaps in the not too distant future the Soviet Union would replace Japan as "enemy No. 1" in the Far East largely as a result, as he pointed out, of "the growing military power of the Soviet Union and the latter's increasing economic and military development both in Russian and non-Russian territory".

Respectfully yours,

STUART E. GRUMMON

740.00/1991 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, July 31, 1939—11 p. m.
 [Received July 31—4:10 p. m.]

376. Instruction No. 1767 of July 8 transmitting the text of the reply⁷⁰ to the Prime Minister's message⁷¹ has been received and as directed I submit comment as follows:

1. The text of the proposed reply combines frankness with measured language and seems to me to be perfectly clear. As it addresses itself specifically to the Prime Minister's formal message delivered through Mr. Grew there occurs to me no suggestion for change in the text.

2. With regard to the question of opportuneness I have no doubt whatever that the reply, if delivered now, would heavily emphasize the impression in official circles as elsewhere in Japan that the United States has now initiated a definitely positive attitude toward Far Eastern problems. If that is the effect which the Department desires to obtain the sooner the reply is delivered the more effective it will be.

3. Although I have carefully studied the draft reply in the light of the Department's 196, July 13, 6 p. m.,⁷² I desire the Department's further guidance as to what I should say to the Prime Minister concerning his definite proposal with regard to the holding of an international conference to be called by the President to discuss problems causing world unrest including Far Eastern problems. It has been quite definitely suggested to me that the message which was handed to Mr. Grew and which contained no concrete proposal was intended as an opening for the move which the Prime Minister made a few days later when he asked that I communicate his proposal in the strictest confidence to you and the President.

4. I lay before the Department the following suggestion as to procedure on this last point (*a*) if notwithstanding the invitation in the draft reply for "further information" the Department does not desire to explore the proposal for an international conference that I invite the Prime Minister to read between the lines of the reply which I am to hand to the Foreign Minister; or (*b*) if the Department is in process of studying the proposal, that I so inform the Prime Minister and add that the reply which I am to hand to the Foreign Minister is addressed only to the message delivered to Mr. Grew and that a reply to his proposal will be forthcoming in due course.

DOOMAN

⁷⁰ *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 5, 6.

⁷¹ See telegram No. 234, May 18, 5 p. m., from the Ambassador in Japan, *ibid.*, p. 1.

⁷² Not printed.

740.00/1991: Telegram

The Acting Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 1, 1939—8 p. m.

235. Your 376, July 31, 11 p. m.

1. The Department has re-examined the text of the proposed reply in the light of the comments contained in your telegram under reference. Although we can appreciate that some of the statements contained in the reply, if taken by themselves, might tend toward creating an impression somewhat along the lines suggested in your paragraph numbered 2, it does not seem to us that the message viewed as a whole need give or emphasize the impression which you estimate that it would. We therefore would welcome further clarification of the thought suggested in the first sentence of your numbered paragraph 2.

2. In the view of the Department our proposed message answers both the Prime Minister's message handed to Mr. Grew and the Prime Minister's subsequent proposal communicated through you which we construe as an elaboration of the message. As stated in the Department's 196, July 13, 6 p. m.,⁷³ our reply thus includes indication of our general reaction to the views reported in your 242, May 23, 11 p. m.

3. As the matter appears to the Department, neither of the alternative procedures suggested in your numbered paragraph 4 need be adopted. We believe that the reply needs no explanatory comment and that when you deliver it you should make no interpretative comment other than to say, if expressly asked, that the reply is meant to cover both the Prime Minister's written message and his statements reported in your telegram no. 242, May 23, 11 p. m.

4. The Department is sending you by separate telegram ^{73a} the text of a slight change which the Department desires be made in the text of the reply.

5. Upon receipt from you of the clarification requested in paragraph 1 above, the Department will expect to send you definitive instructions with regard to the question of when the reply should be delivered.

WELLES

⁷³ Not printed.

^{73a} No. 239, August 2, 1939, 9 p. m., not printed.

740.00/2007 : Telegram

*The Chargé in Japan (Dooman) to the Secretary of State*TOKYO, August 3, 1939—4 p. m.
[Received August 3—10:45 a. m.]

384. Department's 235, August 1, 8 p. m.

1. Before proceeding to clarify the point discussed in paragraph 1 of the Department's telegram under reference I must correct a misunderstanding which I have inadvertently permitted the Department to form by failing to stress that it has been represented to me, and I believe correctly, that knowledge of the Prime Minister's proposal with regard to an international conference is confined only to his entourage. (Please see last two sentences page 8 of despatch No. 3936, June 7⁷⁴). That the Foreign Minister has no knowledge of this project is strongly indicated by the fact that both he and the Vice Minister, hearing that I had been received by the Prime Minister, asked me on separate occasions what the Prime Minister had to say (I referred them to the Prime Minister). I believe that this fact will serve to explain my feeling that the Prime Minister's personal and confidential move merits a reply separate from the official reply to his official message.

2. With regard to the point which I am desired to clarify, I am strongly impressed by the primary significance which is generally attached in Japan to the fact that notice of termination of the commercial treaty⁷⁵ was given by the United States without prior intimation as there would have been had the action been motivated in large part by economic considerations. The deduction that the motivating considerations were political in character is confirmed by noting American press and other popular reaction to the notice of termination.

I find no dissent either in the press or among individual Japanese from the conclusion that the recent American action inaugurated a positive American attitude. There is, however, complete uncertainty as to the compass of issues which might cause the United States to give effect to that attitude by further decisive action and conversely silent on field within which American and Japanese policies can be respectively pursued without conflicting with each other. Every action and statement of Chinese attitude is now being microscopically examined in the hope of finding a clue towards solving these questions.

⁷⁴ For extracts of despatch, see p. 43; the sentences referred to (not printed) stressed "the importance of keeping a profound secret the forthcoming talk" with the Japanese Prime Minister, whose "political position was reasonably secure, but that the alignment of factions within the Government over European policy was so delicate as to require that the Prime Minister act very cautiously."

⁷⁵ For note to the Japanese Ambassador dated July 26, see p. 558; for treaty of February 21, 1911, see *Foreign Relations*, 1911, p. 315.

3. I realize that there are considerations leading to the action taken by our Government last week which fall entirely outside the field of my observation and which made necessary a step obviously falling within the realm of high policy. But I feel that before this correspondence is closed I should record my estimate of the effects which will be produced by delivery of the reply in the form decided upon by the Department. I believe that the reply would be interpreted (a) by the Japanese Government as an indication that the attitude now taken by the American Government requires the termination of the conflict with China as a condition precedent to the betterment by Japan of her relations with the United States; and (b) by the Prime Minister as a closing of the door to insure peace in the Far East.

DOOMAN

740.00/2007: Telegram

The Acting Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 4, 1939—3 p. m.

242. Your 384, August 3, 4 p. m.

1. With reference to your suggestion that the Prime Minister's personal and confidential move merits a reply separate from the written reply to his written message, we feel that as his move was made orally you might, subsequent to the delivery of our written reply, indicate to him or to some appropriate official in his immediate entourage that, in view of the statement contained in your numbered paragraph 1 of your 242 of May 23, 11 p. m., we construed his proposal as an elaboration of his message and for this reason the written reply thus includes indication of the reaction to the Prime Minister's confidential views.

2. We find it difficult to understand your statement that knowledge of the Prime Minister's proposal is probably confined to the Prime Minister's entourage in the light of the statement made to you by the Polish Ambassador as reported in your 265, June 8, 7 p. m.,⁷⁶ that the Foreign Minister had informed the Polish Ambassador that the views of the American Government in regard to the possibility of Japan and the United States collaborating to bring about a *détente* in Europe were being explored. Also, the British Government some time ago approached the Department and stated that it had heard a report along this line and inquired as to the attitude of this Government.

3. It would appear from your comment that it is the reaction in Japan to the action of this Government in giving notice of intention

⁷⁶ *Ante*, p. 45.

to terminate the commercial treaty, rather than anything in the tone or contents of the proposed reply itself, which, if the reply should be delivered now, would in your opinion be likely to emphasize the impression that the United States has now initiated a definitely positive attitude toward Far Eastern problems. The reply was prepared a number of weeks ago and was addressed solely to the contents of the Prime Minister's message as amplified by his subsequent comment. It is realized, however, that the reply, although it has no reference to the question of treaty termination, might, if delivered now, tend to cause the reactions you anticipate. In as much as it has not been and is not the Department's intention that the reply be interpreted as related to the question of treaty termination the Department authorizes you to withhold its delivery for a short time if in your judgment such delay would be likely to render the reply less susceptible to such interpretation.

4. When delivering the reply please bear in mind the Department's desire, as indicated in the last paragraph of the Department's mail instruction No. 1767 of July 8⁷⁷ that the reply be regarded as strictly confidential.

WELLES

740.00/2015 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 5, 1939—9 p. m.

[Received August 5—12:45 p. m.]

389. Department's 242, August 4, 3 p. m.

1. I very greatly appreciate the authorization granted me by the Department to make or convey to the Prime Minister the explanatory statement indicated by the Department.

2. With regard to the question raised by the Department in the second paragraph of its telegram under reference I do not have the impression from anything said to me by the Polish Ambassador during our conversation on June 8 or in any subsequent conversation that the Foreign Minister had told him anything on that subject which does not lie within the four corners of the message handed to Mr. Grew on May 18. That message was indeed an effort to explore the possibility of an American-Japanese *détente* in Europe but does not itself go so far as to propose for consideration as the Prime Minister did subsequently to me the calling of an international conference to discuss business interests as well as European problems. With regard to the inquiry at the Department of the British Ambassador, Craigie asked me about 2 months ago whether I could clarify a report he had heard

⁷⁷ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 5.

(presumably from the Polish Ambassador) to the effect that the Japanese Government had approached our Government with regard to the situation in Europe, and I replied that as the Department alone was in a position to decide whether any information on this matter should be given to the British Government, inquiry would best be made in Washington.

3. The Department will note from our immediately following telegram ⁷⁸ that the timing of the delivery of the reply has been further complicated by reported important developments in Tokyo. My inclination is to withhold action for the present.

DOOMAN

740.00/2025: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 8, 1939—4 p. m.

[Received August 8—9:38 a. m.]

393. Our 389, August 5, 9 p. m.

1. The Prime Minister's personal adviser called on me at 9 o'clock this morning. He said that he had just seen the Prime Minister who had expressed desire to receive as soon as possible the Secretary's reply. I told Mr. Fujii that I had been in a position since yesterday to deliver the reply to the Foreign Office but that I had informed the Department that in view of internal Japanese political developments I was inclined to withhold action for the present. I added, however, that as the Prime Minister had expressed desire to have the reply as soon as possible I would deliver it at once to the Foreign Office. I asked Fujii to call again at noon. I thereupon delivered the reply in person to Yoshizawa ⁷⁹ who received the document without comment for delivery to the Foreign Minister. Upon my return from the Foreign Office Fujii called again. I gave him a copy of the reply and said that it included, for the reasons specified in paragraph 1 of the Department's 242, August 4, 3 p. m., indication of the Secretary's reaction of [to?] the Prime Minister's confidential views.

2. Fujii's comment was that the reply seemed to be addressed to the Prime Minister's written message and, looked at in that light, would he thought be well received by his principal. He said that he would see the Prime Minister again this evening after the Five-Minister Conference (called to discuss the alliance with Germany and Italy).

3. I marked the reply strictly confidential and told both Yoshizawa and Fujii that it was not to be published.

DOOMAN

⁷⁸ No. 390, August 5, 10 p. m., p. 47.

⁷⁹ Director of the American Affairs Bureau, Japanese Foreign Office.

793.94/15306 : Telegram

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

CHUNGKING, August 13, 1939—9 a. m.

[Received August 14—1:25 p. m.]

495. Despite fluidity of events and difficulty of appraisal of facts I offer following comments as personal reactions since my return from leave.

From a military point of view it is apparent that the land forces of China and Japan are at a deadlock. Since the beginning of the year the Japanese army of occupation has been vainly endeavoring to advance its control in Shansi, Hopei, Shantung and northwestern Hupeh. It is evident that the Japanese garrison army south of the great wall (believed to number about a million men) has all it can do to hold what it has without extending its holdings and that additional reinforcements of perhaps an equal number of men will be needed to accomplish Japanese occupation of Shansi Province, Shensi, Kansu, Szechuan, Chekiang, Kiangsi, Hunan, Kweichow, Kwangtung, Fukien and Yunnan.

In fact the military occupation of these mountain and remote western and southwestern provinces presents obstacles of both a physical and logistic nature which make its achievement open to grave doubt and it is highly doubtful whether the Japanese are willing to make the effort. Chinese forces do not yet show any aggressive spirit. They continue to remain on the defensive. Such advances as they have made consist generally in forays into the occupied areas with little or no attempt to retake important and strategical commercial bases. However, the Chinese are establishing guerrilla bases in the war areas the importance of which cannot be minimized in future operations.

The Japanese Navy has been tightening its hold on the coast with the intention of closing Chinese ports against further exportation of Chinese products. This is progressively affecting the ability of Chinese to sell their products and obtain foreign exchange for use in purchase of goods abroad although exports through Indo-China and Burma show some increase. The ability of the Japanese Navy to plug up all of the leaks is open to doubt as long as Hong Kong and Shanghai remain open as collecting and forwarding centers.

Financially the Chinese Government is practically at the end of its domestic financial resources. The small fund advanced by Great Britain for use as a stabilization fund to maintain exchange has been exhausted in the attempt to maintain Chinese currency in the occupied areas. Efforts by the Chinese Ministry of Finance to obtain French and American participation in this method of supporting the

Chinese national currency have failed. The result is that the Chinese Government has, to all intent and purposes, abandoned the Chinese dollar in the occupied areas and Chinese economists and financiers are discouraged, feeling that such abandonment will react seriously upon the loyalty of Chinese in the occupied areas, compel them to accept Japanese sponsored currency for their products and thus help to establish that currency upon exchange derived from the sale of Chinese products shipped abroad.

This, of course, opens up a fruitful field of speculation as no one is able to foresee just how long and to what extent the Japanese Government with its own exchange problems will be able to support the currency of the regimes it is trying to set up in China. Japan of course hopes that exports from the occupied areas to countries other than Japan will take over the burden of this bayonet currency of the Japanese army of occupation but it will be some time before any accurate estimate can be made of the capacity of such commerce as may survive or be allowed to grow, apart from that which must pay for Japanese goods and the charges of the Japanese army of occupation, support such currency. The fact remains however that at the moment some responsible Chinese leaders are considerably disturbed about the financial situation, the dwindling exchange resources over which they have control and their ability to continue to hold the loyalty of the Chinese of the occupied areas where Japanese sponsored currency is available as against unsupported Chinese national currency.

This attitude of discouragement was increased by the widely disseminated Japanese interpretation of the formula accepted by the British negotiators in Tokyo. The Chinese feared that the British Government might be preparing to accept Japanese aims in China as a *fait accompli* and to withdraw all support and perhaps recognition from the Chinese Government. The action of the American Government in serving notice on Japan of its intention to denounce the treaty of 1911⁸⁰ and the accompanying evidence that this action was the outgrowth of a growing feeling in the United States of indignation over Japanese disregard of American rights and interests in the occupied areas came as an electric shock to the Chinese and has served to buoy them up on the belief that this action portends further steps of a positive character by the United States Government in defense of its citizens and their rights and interests in the Far East. Chinese leaders assume that positive action of this sort cannot but aid them in their resistance to Japanese aggression.

It is worthy of note in connection with the Japanese instigated anti-British agitations in the occupied areas that the Chinese author-

⁸⁰ See note of July 26 to the Japanese Ambassador, p. 558.

ities have never, in so far as I am aware, publicly uttered any condemnation of such agitation. It must be remembered that here in the Far East the Occidental, of whatever nationality, has a status not unlike that of the Jew in eastern European countries and it may be expected that there will be instinctive sympathy among all peoples of the Far East toward these agitations against one of the Occidental peoples and an interest in watching its effects without implying any change of attitude toward the Japanese. If these agitations result in more positive attitudes on the part of the Occidental nations in their relations with Japan, all the better. In this connection I suggest the rereading of my telegram No. 593, September 3, 1 p. m., 1937, from Nanking.⁸¹

Domestically there appear to be a notable intensification of the long standing issue between the Kuomintang and the liberal and so-called communist groups. While all political elements among the leaders and people have been compelled by events to cooperate in resisting Japanese encroachment the leaders of the Kuomintang, responsible for Government policy and conduct of the defense, have shown a growing jealousy of the so-called communist leaders among the youth of the country and a tendency to increased demands of party orthodoxy among their followers and the people. The Soviet Union Government has never, so far as I can learn, shown any tendency or desire to support the so-called communist forces as against the Chinese National Government. On the contrary Soviet support, which has been considerable and which has been of material assistance to China's war economy, has been given exclusively to the Kuomintang Government.

The defection of Wang Ching Wei has not yet attracted any important Chinese leaders from their loyalty to the Kuomintang Government and it is evident from reports from the occupied areas that he has not yet succeeded in attracting to himself any followers, military or civilian, of note able to bring together the occupied areas under one regime which might wage civil war against the Kuomintang Government and win the *de facto* recognition of the foreign powers. This is due not only to his own lack of prestige but also to the inability of disparate elements among the leaders of the Japanese army of occupation to unite on any plan that would give to Chinese a predominant regency in such a unified government.

The situation remains in a state of flux with the burden of proof still on the Japanese Army and with Chiang Kai Shek and his Kuomintang Government, which they have read out of office so many times, essentially in control of China despite their economic and

⁸¹ Text quoted in telegram of September 6, 1937, 10 a. m., from the Consul at Hong Kong, *Foreign Relations*, 1937, vol. III, p. 513.

financial problems. I have consulted members of my staff in regard to the above and find them generally in agreement with it.

Repeated to Peiping and Shanghai. Shanghai repeat to Tokyo.
JOHNSON

793.94/15315: Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, August 17, 1939—noon.
[Received 7:45 p. m.]

262. Continuing my No. 260, August 16, 3 p. m.⁸² Qualified observers here report that Japanese occupation of towns and places on the Hong Kong-Kwangtung frontier from the Pearl River to Mirs Bay is apparently being with a view to some permanence and closing of frontier to all traffic (which in recent months has reached almost normal volume) between this colony and the hinterland. Observers report about 2,000 Japanese troops strung along frontier. Chinese resistance reported negligible and there have been comparatively few refugees so far. Government here was previously informed by Japanese of their intention to police frontier and no incidents are anticipated although British soldiers and police have been stationed all along this side of the frontier.

Repeated to Chungking, Canton, Peiping.

SOUTHARD

893.00/14433

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

No. 306

CHUNGKING, August 18, 1939.
[Received September 5.]

Subject: Conditions in Northwestern Provinces of China.

SIR: I have the honor to enclose, as of possible interest to the Department, a copy of a memorandum⁸² dealing with various recent developments in the Northwestern provinces of China.

With reference to the question of recent developments in Kuomintang-communist relations*, one subject mentioned in the enclosed memorandum, it may be well to record that there have also been a few related developments in the Chungking area: (1) the Life Book Company, publishers of literature of a "leftist" nature, has been closed

⁸² Not printed.

* See also this Embassy's despatch No. 281, July 19, 1939. [Footnote in the original; despatch not printed.]

by the authorities; (2) a considerable quantity of communistic and radical literature has recently been confiscated by the authorities; (3) several communists and ultra-liberals are reported recently to have been detained by the authorities; (4) the activities of the Chinese Industrial Cooperatives are under close surveillance as it is feared that these organizations may be subject to communist influence; (5) Chen Li-fu, a prominent Kuomintang leader and present Minister of Education, is reported to be working assiduously through the Kuomintang and the Ministry of Education to popularize the Kuomintang with the youth of China, and the activities and organization of the San Min Chu I Youth Corps are being greatly expanded in an endeavor to attract the youth of China from similar communist organizations.

Although various restrictions against communist political activities have undoubtedly been increased in recent months, the Embassy does not feel that these activities foreshadow a severance of the close relations that have existed between the Kuomintang Government and the communists in respect of the conduct of hostilities against Japan, though they do indicate that concrete difficulties may be expected to develop if and when the common enemy of both—Japan—disappears from the scene.

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94119/571 : Telegram

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

PARIS, August 26, 1939—9 a. m.
[Received August 26—8:25 a. m.]

1601. For the President and the Secretary. The Polish Ambassador in Paris said to me last night that the relations between the Japanese and Polish Governments were much closer and more cordial than generally realized. He knew positively that the Japanese Government at the present moment would welcome an effort of the American Government to settle the disputes between Japan, Great Britain and France and bring the war in China to an end on a reasonable basis.

The Polish Ambassador added that he felt so confident that an immediate improvement in the situation in the Far East could be brought about that he believed the Government of the United States would be fully justified in moving the American Fleet immediately from the Pacific to the Atlantic. He then suggested that I should get in touch with the Japanese Embassy in Paris.

I naturally replied that I would not do any such thing and expressed the opinion that the American Fleet would remain in the Pacific for some time to come.

I have been aware for some time of the exceedingly close relationship between the Japanese and Polish Governments which is based on fear of the Soviet Union and an absence of conflicting interests between Japan and Poland. As you know the Polish Ambassador in Paris was my colleague in Moscow. I know him intimately and I am certain that he would never have spoken to me as he did last night if he had not received instructions from his Government to do so.

While I remain entirely skeptical with regard to the willingness of Japan to accept a peace which will insure the independence and free development of China, I consider it within the realm of possibility that the Japanese Government may have used this round-about method to indicate to the Government of the United States that it would be glad now to enter into serious discussions for the termination of war between Japan and China.

BULLITT

793.94119/571

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] August 26, 1939.

Reference, Paris' telegram no. 1601, August 26, 9 a. m.

It seems to me altogether likely that Mr. Bullitt's Polish colleague made this approach to Bullitt under instructions from the Polish Government.

Further, it is not unlikely that the Japanese Government initiated the approach.

Comment:

Removal of the American fleet from the Pacific to the Atlantic would be very pleasing to Japan. It both would relieve the Japanese Army (operating in China) of certain anxieties and would be encouraging to the Japanese Navy (which wishes to operate southward). It would be demoralizing to the Chinese, discouraging to the British, and very helpful to any elements in Japan and in Russia that may be toying with the idea of working out an arrangement between those two countries toward division between them of spheres of operation in the Far East and on the continent of Asia.

Suggestions that we move our fleet from the Pacific to the Atlantic have come from several sources during the past week. The various sources may all have been moved by suggestions originating in Japan.

I hope that Mr. Bullitt is correct in his "opinion that the American fleet would remain in the Pacific for some time to come."

The moment has not yet arrived for any effort by the American Government, whether in association with the British and the French and/or other governments or by itself, to become involved in efforts "for the termination of war between Japan and China." The Japanese Army is not ready to move out of China, and the Chinese are not ready to make a treaty whereby portions of that army would be authorized to stay in China. A treaty involving a "compromise" whereby Japan would be given various special concessions and privileges in north China would have to be forced upon China. Acceptance by China at this time of such a treaty, under pressure from third powers or a third power, would constitute a giving of assistance by such powers or power to Japan and would involve another Munich. While there might be some justification for efforts in that direction by the British and the French, for the purpose of salvaging something of what they have in China and strengthening their general position in the light of the menace which they face in Europe, there would be no justification for a move in that direction by the United States. In our foreign policy, we lay more emphasis upon moral and legal interests than upon material interests. Our great problem in relation to current developments in the Far East is that of defending principles rather than that of salvaging investments. We are not immediately menaced as regards territory, either overseas or at home. Our constant objectives and our immediate problems do not call for any sacrificing of principles on our part and would not warrant any betrayal of China by us.

If we ever step into a role of mediator between Japan and China, we should do so after and only on the basis of a direct invitation officially offered us by the Japanese and the Chinese Governments; and, we should think hard before associating ourselves with Great Britain and France and/or any other country in such a role.

STANLEY K. HORNBECK

793.94111/125

The Secretary of State to the Chairman of the Senate Foreign Relations Committee (Pittman)

WASHINGTON, August 26, 1939.

MY DEAR SENATOR PITTMAN: I refer to your letter of August 14⁸⁴ transmitting for consideration and any recommendation or report that I may feel disposed to make, the resolution (S. J. Res. 186)⁸⁵ providing that the United States shall maintain a policy of strict neutrality in Asia.

⁸⁴ Not printed.

⁸⁵ Introduced by Senator Gerald P. Nye, of North Dakota, on August 5; *Congressional Record*, vol. 84, pt. 10, p. 11126.

In view of the fact that the policy of this country has been clearly indicated in the statements and the decisions of the President and this Department, and of the fact that this policy is a policy of neutrality in regard to all parts of the world, and of the further fact that this resolution, if adopted, would be readily susceptible of misconstruction, misinterpretation and misrepresentation, I am sure that you will agree with me that the public interest will be best served if no action be taken on the resolution.

Sincerely yours,

CORDELL HULL

793.94119/573 : Telegram

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

PARIS, August 28, 1939—noon.

[Received August 28—8:15 a. m.]

1621. For the President. Discussions with those French outside the Government who have done the most to assist Chiang Kai Shek in his resistance to Japanese aggression reveals the opinion that the present opportunity should be taken to obtain a statement from Chiang Kai Shek as to the minimum terms on which he would conclude a peace with Japan which would preserve the independence and possibility of free development of China. It has been suggested to me that this initiative should be taken by the United States through our Ambassador to China and that you should attempt to bring about the end of the war in China and the alignment of Japan with France and England against Germany.

I understand that fear of Russian attack is now great in Japan and believe that you should consider most carefully the advisability of some sort of action of this kind. The French and British have their minds too fixed on Germany to handle this problem adequately.

BULLITT

741.94/324 : Telegram

The Chargé in Iran (Engert) to the Secretary of State

TEHERAN, August 28, 1939—1 p. m.

[Received 6:48 p. m.]

92. Japanese Minister told me this morning that he has received several personal and confidential cables from Tokyo indicating that the military party in Japan is now thoroughly discredited and that his Foreign Office and the liberal elements in the country would welcome an opportunity of being friends with England and America. The Minister says his Government is now at the crossroads and if London and Washington could seize the occasion and by some gesture still

further weaken position of the military leaders far-reaching results might be obtained. He says he knows that Ambassador Shigemitsu in London and ex-Ambassadors Matsudaira and Ishii fully share this view.

The Minister added that ever since last summer his Foreign Office had been suspecting Hitler of trying to make common cause with the Soviets against Poland and the Democracies by taking advantage of Soviet feeling of resentment at being ignored at Munich. In any event unnatural alliance between the Democracies and Moscow could not have lasted because of record of duplicity and treacherous deceit of Soviet leaders whose aim was still revolution and class warfare in all bourgeois countries.

ENGERI

893.00/14421 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, August 28, 1939—4 p. m.
[Received August 28—12:35 p. m.]

450. I have been informed by an American in direct touch with the Chairman and other high officials of the Provisional Government that Kita and Wang Keh Min are working together more harmoniously than at any previous time and that the relations between Wang and the Chinese authorities are also of a harmonious character, the latter being more or less reconciled to Wang remaining in his present position because they believe he may be in a position to be useful through his contact with Kita in case a new situation should arise making peace discussions possible. It would seem to be significant that high ranking Japanese military officials continue by public statements to reflect the Japanese desire to bring the present hostilities to an end. There are multiplying signs that the Japanese Military already consider that major military operations have ended; that what lies ahead is chiefly the suppression of guerilla bands, the organization of regional governments, or an amalgamated central regime, under their control, and the consolidation of their economic hold on some if not all of the occupied areas. Well-informed with whom I have talked within the past few days have expressed the view that the conclusion of the Soviet-German pact will tend to promote the desire of the Japanese to bring the China "incident" to a close but they admit on the other hand that this will be counterbalanced by the Chinese stiffening their resistance in the belief that the Soviet Republic will have more freedom of action in the Far East. My Soviet colleague in a very guarded conversation has expressed to me his personal view that the new pact

was a Russo-German move designed solely to preserve the peace of Europe. Whether it was concluded without regard to its direct and immediate effect on the Far Eastern situation gives room for speculation. Nevertheless it is certain to affect the situation in the Far East and it would not be surprising to see manifested a stronger desire than ever on the part of the Japanese to end hostilities especially if war in Europe is averted which should contribute something towards moderation in Tokyo.

Repeated to Chungking; code texts by air mail to Tokyo.

LOCKHART

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom have had under consideration the action to be taken by the British military garrisons at Shanghai and Tientsin in the event of:

(a) A Japanese threat to the integrity of the International Settlement at Shanghai⁸⁶ or of the British Concession at Tientsin⁸⁷ arising from the present situation in China, and

(b) War with Japan.

At the same time His Majesty's Government have been considering what measures might be taken, in either of the contingencies referred to above, to safeguard the interests of British civilian nationals in these two places.

The Brigadier at Tientsin was recently authorised to disclose at his discretion to the Commander of the United States military forces there his instructions for the action of British troops at Tientsin in case the Japanese should invade the Concession during the course of the present campaign, and His Majesty's Government consider it advisable that the United States Government should be made aware of the policy of His Majesty's Government in regard to the action of the British forces at Shanghai. These instructions are that, in the event of Japanese troops seeking to enter the British Concession at Tientsin, or the British sector of the International Settlement at Shanghai, opposition by His Majesty's military forces must not be carried to a point where armed conflict is likely to result; force, however, may always be employed for the protection of British lives. A copy of the relevant extract from the Army Council's instructions to the General Officer Commanding the British troops in China is enclosed⁸⁸ for the very confidential information of the United States Government.

⁸⁶ See vol. IV, pp. 1 ff.

⁸⁷ See *ibid.*, pp. 163 ff.

⁸⁸ Not printed.

His Majesty's Government would be very grateful if the United States Government could see their way to reciprocate by communicating to them their instructions, in the event of Japanese occupation of the International Settlement at Shanghai in the absence of war, and also any instructions given to United States garrisons in North China in the event of similar contingencies.

In the view of His Majesty's Government numerical superiority of the Japanese forces in China precludes any possibility of effective resistance. Any show of force therefore can only be bluff. Whilst it is possible that it might act as a deterrent, there is a grave danger that, in their present temper, the Japanese military authorities in China might persist in their intentions, notwithstanding that to do so might be contrary to the policy of the Japanese Government. The risk of resisting a minor incident in order to avert a major one is, in their view, too great; the ensuing hostilities could but result in the British Garrison being overwhelmed. For the sake of prestige the British Government would then have little option but to make the matter a *casus belli*, thereby offering Germany and Italy an opportunity for aggression in Europe.

Apart from this danger, an armed clash with the Japanese could not fail to expose all foreign nationals to serious danger. In the course of the fighting the Japanese are unlikely to have any regard for the lives of civilians. Furthermore the fact that they have been opposed by force may well excite the Japanese troops to excesses, from which they might otherwise forbear, against the persons and property of foreign nationals.

As regards the position of British civilians in Shanghai and Tientsin. In the circumstances envisaged in paragraph 1 (a) above, His Majesty's Government consider that they would be no worse situated than those at Hankow, and that little personal danger is to be anticipated, providing no resistance by force is offered.

In the case of war with Japan it is the policy of His Majesty's Government to withdraw the British garrisons from North China and Shanghai if circumstances permit. If, however, this step cannot be taken, resistance on the spot would not only be useless from the military point of view but for the reasons given above might also prove a great disservice to British and other foreign civilian nationals. After careful consideration of the possibilities there seems in such a case to be no alternative to the garrison submitting to internment.

His Majesty's Government would be grateful to learn in confidence whether, in the event of Japan becoming engaged in war with Great Britain or France, the United States Government propose to retain their garrisons in China, and if so what attitude they propose to adopt vis-à-vis Japan in the International Settlement at Shanghai.

With regard to the position of British civilian nationals at Shanghai and Tientsin in the event of war, the views of the Admiralty are at present awaited. Subject to these views, however, His Majesty's Government are inclined to accept the view expressed by His Majesty's Ambassador in China and His Majesty's Consul-General in Shanghai, that evacuation before or after the outbreak of hostilities would be impracticable, and consider that in this case also little personal danger to civilian nationals is to be anticipated.

His Majesty's Government would also be very glad to know the plans of the United States Government for the protection of their nationals in either of the two contingencies referred to, and to learn whether, should war supervene, the United States Government would be willing to approach the Japanese Government with a view to suitable arrangements being made for the welfare of British civilian nationals in China. A further enquiry is made whether, should it be found necessary for the British garrisons in these two places to lay down their arms, the United States Government would be prepared to suggest to the Japanese Government the internment of British troops under United States auspices.

WASHINGTON, August 29, 1939.

793.94/15332 : Telegram

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

CHUNGKING, August 30, 1939—9 a. m.

[Received 7:25 p. m.]

515. At the request of General Chiang I called upon him yesterday afternoon accompanied by Peck. The President of the Executive Yuan, the Minister for Foreign Affairs and Madame Chiang were present. What follows is a condensation of a series of carefully formulated and numbered observations made by Chiang and interpreted partly by the Minister for Foreign Affairs and partly by Madame Chiang.

2. (1st) Chiang said he was anxious to learn the opinion of the President and also of the American people regarding the meaning and effect of the German-Soviet non-aggression pact particularly with reference to its bearing on future developments in the Far East.

(2d) He asserted that he had completely reliable information that the British and Japanese Governments were negotiating to revive the Anglo-Japanese alliance and to invite the [adherence?] thereto of the French Government. He would be very interested to learn whether the American Government had received this information.

(3d) He also had received information that during the discussions between the Soviet, British, and French Governments for a military accord the Soviet Government had proposed that its scope be extended

to the Orient and that when the British and French rejected this proposal that government had determined to conclude the nonaggression pact with Germany in order to withdraw from European involvement and thus be able to devote its attention exclusively to the solution of Far Eastern problems. This solution it hopes to achieve in conjunction with the American, British, and French Governments but since in existing circumstances the latter two governments regarded the Soviet Government with a degree of suspicion the Soviet Government is hopeful that the American Government will take the initiative.

(4th) Chiang asked that I convey to the President his earnest desire that the American Government take the initiative by warning the British and French Governments against attempting to obtain Japanese protection for their Far Eastern interests by means of a revival of the Anglo-Japanese Alliance. He urged that the President as a substitute measure convoke an international conference to discuss Far Eastern problems either in continuance of the Washington Conference or of the Brussels Conference but in any case with the necessary addition of the Soviet Union. A revival of the Alliance would mean the elimination of the principles embodied in the Nine Power Treaty whose principal sponsor is the United States.

3. In making the foregoing observations Chiang's delivery had been marked by more than his usual gravity and seriousness but in what he called three supplementary remarks he spoke with an almost passionate vehemence. These remarks were (a) China's international policy is one of complete independence and is free from obligation to follow the dictates of the Soviet or of any other [power?]. (b) Chiang believes, however, that in the present international situation there can be no solution of the problems of the Far East except through the agency of the United States upon whose friendship and justice China depends. It is therefore urgently important that he learn at the earliest possible moment what policy the United States intends to adopt in the face of impending developments so that he may suitably frame China's policy. (c) If Great Britain and France are acting on the supposition that Japan's strength in the Orient is greater than that of China they are completely mistaken. If in placing their reliance on Japan they hope to remove a threat to their Far Eastern colonial possessions they should be warned to desist [omission?] have in view because China can be as grave a threat as Japan to the security of those possessions. Chiang will resist Great Britain and France [if they?] become allies of Japan in exactly the same way as he is resisting Japan. Chiang assured me that his information was positive that the revival of the Anglo-Japanese alliance as a tripartite instrument might be decided upon at any moment and he urged that I lose no time in telegraphing to the Secretary and the President observations he had made and that I promptly inform him of the reply. This I promised to do.

4. After the interview the Minister for Foreign Affairs informed me privately that while they could not tell me the source of their information regarding the discussions for the revival of the alliance he could assure me that it was a reliable one and that the Chinese Government overtly asked what its reaction would be to such a revival.

5. Chiang is clearly convinced that a difference in Chinese foreign policy and in the Far Eastern situation has been precipitated by the Russo-German non-aggression agreement and its effect upon British policy in the Far East. All along he has based hope of success in Chinese defense against Japanese encroachment on the conviction that sooner or later world opinion would change in such a way as to favor China and defeat Japan. Now [he] fears that Russia's action in entering into a non-aggression pact with Germany will have so changed liberal opinion in England as to open the way for more conservative elements, who from the beginning have favored such a course, to press for an agreement of mutual assistance between England or [*sic*] against Russia if not a return to the Anglo-Japanese collaboration and for a repudiation by Great Britain of the Nine Power Treaty and the whole Far Eastern establishment as evolved at the Washington Conference. (This theory implies that just as conservative England has sympathized with and aided Germany in tearing up the Versailles settlement, so will conservative England sympathize with and aid Japan in her avowed policy of tearing up the Washington Conference settlement.) Responding to a direct question from the Generalissimo as to my personal reaction to what he had said in this regard, I said that I found it difficult to believe that England could go so far in restoring her relations with Japan not only because of opposition from Australia and Canada but also because I believe that England is relying rather heavily upon American sympathy and aid in her difficulties with Germany and doubtless was aware that such a step accompanied by an effort to persuade Chinese compliance with Japanese plans would be the quickest way of cooling pro-British sentiment in the United States. But my feelings in this regard were somewhat upset last evening upon my return by remarks made to me and to members of my staff by the local British Vice Consul who asked me what I considered to be the minimum peace terms which the Chinese would accept and by his apparent acceptance of the idea that the relations between England and Japan approaching an [apparent omission]. I said that I still believed that Chinese peace terms, at least such as might be framed by the Chinese Government, would call for the complete evacuation of Japanese soldiers and that I felt that the Chinese were worried over the renewal of the Anglo-Japanese alliance. (I also recall that constantly during the past 2 years the

British Government has been periodically sounding the Chinese Government on peace terms, has shown a desire to conciliate and perhaps by helping them to get control of Chinese customs and by acting the role of mediator between the Japanese and the Chinese.) The Vice Consul in question mentioned the fear in England that Russia might make common cause with Japan and then attack England through the allied forces (an unparalleled return to British fear of Russia which characterized the period of the nineties) and extreme reluctance of certain British leaders to have any negotiations with Russia. Later in conversation with a member of my staff he said that the British were concerned with the old fear that Japan and Russia might come to terms and he was of the opinion that the British Government would take steps to put the Tokyo pact into practice (presumably along the lines of Japanese interpretations) and take other effective measures to reach an agreement which might preclude any *rapprochement* between Japan and Russia. He said that he was immediately going to work on an evacuation plan for British subjects in his consular district for he believed that if his Government did take such steps as those above outlined and came to other arrangements with Japan it would result in reactions by the Chinese which would be detrimental to welfare of the British subjects in his district.

6. The astounding insistence by Chiang in his conversation with me that China and not Japan is the dominant military power in the Far East and capable of doing far more damage to British colonial possessions in the Far East than Japan may possibly be based upon a conviction that China would be working against Japan in conjunction with Russia. Although the fact is not officially admitted, a new Russian Ambassador is here waiting presentation of his credentials in a few days. For some reason the Russians have imposed secrecy as to his name.

7. During the conversation with Chiang [*Wang?*] Doctor Hamilton said to me that China now relied upon America for something to save China as America had done in the past; he instanced our attitude in the Boxer negotiations⁸⁹ and our refusal to join in punitive measures after the Nanking incident.⁹⁰ He observed that the United States and China are the principal supports of peace in the Pacific and that by cooperating with China in the maintenance of peace the United States would protect its own welfare.

Repeated to Peiping, Shanghai. Shanghai please repeat to Tokyo.

JOHNSON

⁸⁹ See *Foreign Relations*, 1901, Appendix (Affairs in China), *passim*.

⁹⁰ See *ibid.*, 1927, vol. II, pp. 146 ff.

894.00/869 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 31, 1939—3 p. m.
[Received August 31—7:20 a. m.]

449. Our 448, August 30, 4 p. m.⁹¹

1. The statement mentioned in paragraph 3 of our telegram under reference was given to the press and broadcast to the nation over the radio by the Prime Minister⁹² last night. It was vague and repetitious in character. A summarized translation of that section dealing with foreign relations is as follows.

“World affairs are now full of event and change, and the present situation is extremely significant. The establishment of a new order in East Asia is Japan’s immutable policy, and the adjustment of international relations to this end is of immediate urgency. In coping with the complicated and rapidly changing international situation I intend to preserve an independent position for Japan and proceed on a basis of carrying out our own convictions. We shall cooperate as friends in the promotion of the fortunes of the world with those powers who understand our position and who cooperated unstintingly with us. Those powers who do not cooperate shall be dealt with with firm determination. Japan’s policy with respect to the present incident is already determined and immutable, and the Government, with a united nation, intends to put this policy into effect.”

2. This morning the vernacular press confesses that there is little that is new or concrete in Prime Minister Abe’s statement but declares that the circumstances attending the change of Cabinet make such a statement inevitable. After all, the press goes on, the real question lies in how the new Prime Minister’s convictions are to be given concrete expression. The press is still at a loss to know how Abe will proceed to deal with the present situation and continues to be somewhat skeptical of his ability to do so.

Repeated Peiping. Peiping please repeat to Chungking.

DOOMAN

793.94/15333 : Telegram

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

[Extract]

PARIS, September 1, 1939—4 p. m.
[Received September 1—3:20 p. m.]

1702. For the President. The Chinese Ambassador called on me this morning and said that he had an official communication of the

⁹¹ Not printed.

⁹² Gen. Nobuyuki Abe.

utmost importance to make to me and through me to the Government of the United States.

He had received two extremely long telegrams from General Chiang Kai Shek. The General had instructed him to see me at once to present to me his personal regards and best wishes and to make the following official communication which he hoped I would transmit at once to you.

I asked the Chinese Ambassador if he had any indication in the telegrams he had just received with regard to the terms of settlement which General Chiang Kai Shek would be willing to accept.

He replied that the General had not stated any terms in these telegrams; but from previous instructions to him he believed that the General's terms would be the withdrawal of all Japanese troops from China and the reestablishment of Chinese sovereignty as it had existed before the Tientsin incident.⁹³ I asked the Chinese Ambassador if General Chiang would really insist on the withdrawal of Japanese troops from all North China. He replied that he believed that General Chiang would be glad to agree to have Japanese troops stationed on the Tientsin-Peiping Railroad as they had been before the Tientsin incident. He indicated that he was not at all sure that General Chiang's terms would be so stiff as this.

He stated to me that he believed General Chiang recently, in conversation with the American Ambassador in Chungking, had gone into detail as to the terms on which he was ready to make peace. He was in no position in Paris to be specific on this point.

The Chinese Ambassador concluded by stating that he hoped I would communicate the message he had given to me to you as an official message of the Chinese Government. He hoped I would urge you to act quickly and that I would emphasize General Chiang's belief that the course of action should be (1) conversations with the French and British Governments with a view to preventing them from throwing themselves into the arms of Japan at the expense of China, (2) an approach to the Japanese Government which would include advice not to set up a so-called Chinese Government under Wang Ching Wei and (3) a conference for the settlement of the Chinese-Japanese war.

As I said in my telegram No. 1645, August 29, 2 p. m.⁹⁴ I shall avoid any conversations that I can avoid on the subject of the Far East but once again yesterday the Polish Ambassador obviously acting under instructions from his Government urged me once more to urge my Government to take advantage of the present disposition of the Japanese Government to reestablish good relations with France, England and the United States and to end the war in China.

⁹³ Presumably reference to the Japanese seizure of the Tientsin area in 1937.

⁹⁴ *Ante*, p. 58.

Bonnet⁹⁵ also referred to the same matter.

As he left me the Chinese Ambassador stated that he hoped I would be able to communicate to him in the near future your opinion as to the message he had communicated to you.

I venture to suggest that you should merely inform me that you are studying the question and that you will use more direct channels of communication with the Chinese Government in case you should decide to take any action.

BULLITT

894.00/873: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 1, 1939—7 p. m.
[Received September 1—10:30 a. m.]

450. 1. The Foreign Office informed me this afternoon, in response to an informal inquiry, that it was not as yet prepared to express the views of the Japanese Government with regard to the situation developing in Europe.

2. When interviewed by the press last night the Prime Minister stated that the first and paramount business of the new Government would be to dispose as quickly as possible of the China conflict. Although Japan would follow a free and independent policy she would not rule out cooperation with other countries so long as such cooperation would not conflict with Japan's position and would not place Japan at the mercy of the power or powers extending such cooperation.

3. The logic of the situation as well as the authoritative expression above outlined indicates that Japan will not rush into any new commitments. In my opinion long term political considerations, such as the probable ultimate victory of the democratic powers of Europe supported morally and in various practical ways by the United States, the traditional conflict of interests with Russia, et cetera, will operate to press Japan to seek the friendship of the United States and Great Britain.

4. A study prepared by the Commercial Attaché of the probable effects of war in Europe on Japanese industry and trade suggests another important consideration. Williams points out that the immediate effects of a European war should bring about a sharp increase in the demand for American goods, particularly cotton, wood pulp, machinery and other industrial equipment, nonferrous metals, iron and steel and chemicals including dyestuffs and fertilizers. However, the study discloses that the interruption of supplies of the commodi-

⁹⁵ Georges Bonnet, French Minister for Foreign Affairs.

ties above mentioned from the European countries and of primary materials from British overseas areas would vastly increase the importance of the United States as a source of supply to Japan. Without increased American supplies of oil, steel, iron, machinery, pulp, cotton and chemicals, Japan's industrial expansion program would completely break down and her present productive capacity would be seriously curtailed. If this conclusion is correct, and I believe that it is, economic expediency would combine with political considerations to develop in this country a desire for a restoration of good relations with the democratic countries.

Repeated to Peiping; Peiping please repeat to Chungking.

DOOMAN

761.6211/175a : Telegram

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

WASHINGTON, September 1, 1939—7 p. m.

165. Your 515, August 30, 9 a. m. We are sending you by radio a number of summarized statements⁹⁶ from recent American newspaper editorials in regard to the Soviet-German non-aggression pact and its implications for the Far East.

We have received some indications of a possible wish on the part of certain European powers that they might be able to effect some kind of a *rapprochement* or agreement with the Japanese, perhaps also including this country, which might relieve them of certain of their anxieties in the Far East; but we have no indication of any definite steps or material developments in that direction which would seem to make warrantable the apprehensions which Chiang Kai-shek appears to entertain.

With reference to the second sentence under (b) of your numbered paragraph 3, I believe that you have been receiving in the radio bulletins and in the Department's telegraphic instructions, transcripts or summaries of my recent statements on policy. I perceive no objection to your using, in conversations with Chinese officials, pertinent statements in the quoted portion of our 269, August 30, 7 p. m., to Tokyo,⁹⁷ as an outline in general terms of our views but you will, of course, not mention that these were remarks which I made to the Japanese Ambassador. You may also say that there has been and will be no change in the fundamental and traditional foreign policy of the United States.

⁹⁶ Not reprinted.

⁹⁷ Vol. IV, p. 376.

You may inform Chiang that, in accordance with his request, his message has of course been conveyed to the President.

Sent to Chungking. Repeated to Peiping. Peiping repeat to Tokyo.
HULL

793.94119/577 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 1, 1939—7 p. m.
[Received September 2—8 a. m.]

471. Chungking's 515, August 30, 9 a. m. A well-known American prominently identified with educational institutions at Peiping who recently returned from Chungking called on me (at the instance, I am firmly convinced, of either Wang Keh Min, a Chinese of importance just outside the fringe of the Provisional Government or probably of both) and stated that he had been reliably informed by what he described as "pro-American Chinese" that the British and Japanese were now negotiating either for a renewal of the Anglo-Japanese alliance or for a new agreement which might vitally affect the interests of the Chinese Government. It was strongly hinted that some sort of a peace move might be one of the desiderata connected with consultations [over?] the negotiations and that the Chinese feared the new alignment may so complicate the situation in Far East that the Russians might attack the Japanese through Manchuria and attempt to occupy Korea; informant stated the Chinese do not relish the possibility of the Russians coming into such close proximity to North China; that Chinese refugees have just arrived in Peiping from the region of Nomonhan with reports of severe fighting and heavy Japanese losses; that the belief is growing among the Chinese that a conflict between Russia and Japan is inevitable; that the British Government will approach the American Government with reference to the former's desire to [for?] an understanding with Japan and that this will envisage the possibility of advancing peace proposals in which case it is the Chinese desire that the American Government avail itself of the opportunity to let it be known that the first and paramount consideration of any peace negotiation must be an undertaking on the part of the Japanese to withdraw all troops from China. My informant stated that Wang Keh Min would be prepared to support a peace move which contains an undertaking of this kind and in return would favor a recognition in some form of Japan's special position in North China. Informant further stated that Chinese with whom he had been in touch are convinced that the new Japanese Cabinet will endeavor to placate the American, British, and French Governments

and that if before deciding the British or Japanese should make approaches to the American Government the opportunity should not be lost to bring about [agreement?] which would compel the Japanese to withdraw their troops from China. It was not explained just what formula the Chinese had in mind to [bring?] this about, but I inferred that they felt that the Japanese, having suddenly found themselves divested of the moral, if not the material, support of Germany, would be more responsive than heretofore to meeting the suggestions of the United States, especially since the political structure in Japan has recently received a severe shock and there is what appears to be a genuine desire in some quarters to end hostilities in China.

Chungking's 515, August 30, 9 a. m. had not been received when the above conversation took place. It is significant that Chinese in both Chungking and Peiping appear convinced that the British and Japanese may be on the verge of composing their differences.

Repeated to Chungking and Shanghai. Code text to Tokyo by air mail.

LOCKHART

701.6198/172: Telegram

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

CHUNGKING, September 3, 1939—noon.

[Received September 3—8 a. m.]

518. The newly appointed Russian Ambassador to China, Mr. Alexander Semenovich Panyushkin, presented his credentials on September 1. In the course of his ceremonial address the Ambassador is quoted in the press as having declared:

"The people of the U. S. S. R. are firmly convinced that the struggle of the great Chinese nation will be crowned with success.

Since the establishment of normal diplomatic relations between the Union of Soviet Socialist Republics and the Chinese Republic cooperation between the two countries in political, economic and cultural spheres has been developed to their mutual advantage. The conclusion of the commercial treaty between the U. S. S. R. and China will contribute to still closer and more fruitful cooperation and cultural matters.

In the midst of the unusually tense international situation of the present time, the pacific policy of the Union of Soviet Socialist Republics is united with its friendly assistance to nations subjected to aggression. The Chinese people and Government know that in their heroic struggle for national freedom and independence assistance on the part of the U. S. S. R. has been rendered to them not in words but in deeds."

In concluding his address the Ambassador requested the Chairman of the National Government of China, Lin Sen, to accept "his hearty

wishes for a complete victory to the Chinese nation in its struggle for national independence”.

In his reply Lin Sen said *inter alia*:

“For the maintenance of its freedom and independence the Republic of China has been resisting armed aggression with all resources at its command. In our difficult and sacred struggle we have received not only unlimited sympathy but also effective assistance from your country. This renders testimony to the stand which the U. S. S. R. has always taken against aggression and supports the firm confidence of the Chinese Government and people that our struggle will end in a glorious victory for China.”

Repeated to Peiping. Peiping please mail copy to Tokyo.

JOHNSON

893.102S/1871: Telegram

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

SHANGHAI, September 4, 1939—1 p. m.

[Received September 4—3 a. m.]

795. Information obtained by the United States Marines is to the effect that the Japanese military and naval authorities here propose to take action, as “neutrals”—but apparently as the forces in occupation of this part of China—to notify the British and French forces here to withdraw whereupon the Japanese would expect to take control of the administration of the French Concession and International Settlement. The First Secretary of the Japanese Embassy during a call on me this morning inquired whether I could confirm a report that the United States Marines are to take over the British defense sector at Shanghai. I replied that I had no information on the subject. He avoided any disclosure of the Japanese attitude.

Sent to the Department only.

GAUSS

893.102S/1872: Telegram

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

SHANGHAI, September 4, 1939—5 p. m.

[Received September 4—10:30 a. m.]

796. With reference to reports here that the Japanese, for themselves and/or in support of their puppet regimes, may take the position that British and French forces should withdraw from Shanghai, whereupon the Japanese would expect to assume control of the ad-

ministrations of the French Concession and International Settlement, it seems to me that while there may be a basis for asking the withdrawal of the forces of belligerent powers, it is not incompatible with the neutrality, if declared, of China, Japan, or any regime, that the local Concession and Settlement administrations should continue to function as they did in 1914 provided they do not engage in unneutral activities.

If the British and French forces withdraw—and I believe the British would probably do so while French might not—the only other foreign force except the Japanese would be the small Italian contingent and the American Marines.

If Italy enters the war the Italian contingent would presumably also be asked by the Japanese to withdraw. The American Marines would not be able to take over the sectors heretofore held by the British, French and Italians nor do I believe that such a move should be contemplated. It seems to me that all that the Marines could do would be to seek to protect American nationals by such means as might be possible.

I do not believe, however, that we should countenance or acquiesce in action by the Japanese to control or supervise the administrations of the International Settlement or the French Concession where so many Americans reside. It seems to me that we should use such influence as we can bring to bear with the Japanese to prevent this from being done.

As the situation here may develop without much notice I communicate the foregoing views and request any instructions the Department may give for my guidance.

Repeated to Chungking, Peiping and Tokyo.

GAUSS

740.00111 European War, 1939/50: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, September 4, 1939—9 p. m.

[Received September 4—10 a. m.]

455. Our 453, September 4, noon,⁹⁹ paragraph 2. Following is our translation of Cabinet statement released this evening:

“The Imperial Government will not become involved in the conflict which has suddenly broken out in Europe, but will devote all its energies toward resolving the China incident.”

Sent to Peiping. Peiping, please repeat to Chungking.

DOOMAN

⁹⁹ Not printed.

893.0146/700

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] September 4, 1939.

I handed to Mr. Miller of the British Embassy, for Mr. Mallet,¹ the *aide-mémoire* hereunder attached.²

I stated to Mr. Miller that we give this information in strict confidence: that our *aide-mémoire* contains certain statements which we have not before committed to writing; and that we consider it important that certain governments be without knowledge of what we might or might not do with our landed armed forces in China in the event of unlawful steps on their part toward taking over areas in which those armed forces are located. Mr. Miller stated that his Embassy regarded this matter as highly confidential and shared our views as they had just been expressed by me.

I then pointed out that in our *aide-mémoire*, on page 1, in the third paragraph, and in the second sentence thereof, we are speaking of circumstances of peacetime and that "any nation" includes the Chinese. Mr. Miller said that he understood.

I then said that, in passing, I wished to make, without implication of criticism, a simple objective statement of fact: we have been informed that British and French naval vessels and their armed forces landed therefrom recently at Amoy have withdrawn from Amoy;³ we have had, so far as I know, no official notification, either before or after the event. I said that I was mentioning this only because his Government and this Government have been working on the basis of an informal and unwritten understanding that in the event that either Government is making changes in the numbers and the locations of its landed armed forces in China it will try to consult with or notify the other Government in advance. I said that I well realized that there now exists a situation of emergency; but that I was mentioning this matter simply to keep the record complete. Mr. Miller said that he was sure that if there had been a slip-up it had been unintentional and his Government would be sorry.

STANLEY K. HORNBECK

¹ Counselor of the British Embassy.

² *Infra.*

³ For situation at Amoy, see vol. iv, pp. 108 ff.

893.0146/700

The Department of State to the British Embassy

AIDE-MÉMOIRE

Referring to the British Embassy's *aide-mémoire* of August 29, on the subject of action to be taken by or in regard to landed armed forces at Shanghai and Tientsin in certain contingencies:

The Department of State wishes to thank the British Embassy and the British Foreign Office for the information given. The Department, having considered the inquiries made, replies as follows:

The American landed armed forces in China were landed and are maintained in that country for the purpose of protecting American lives and such incidental protection of American property as may be appropriate. They are emphatically not intended to engage in combat operations against authorized armed forces of any nation. Our concept, especially during recent years, has been, and is, that, in the presence of emergency situations wherein it appears that the local authorities are not able or may not be able to maintain order and to afford appropriate protection to our nationals, we shall, and we do, at certain points land and maintain armed forces to supplement or to function in substitution for the efforts of the local authorities in those connections. We consider it the essential mission of our landed armed forces to safeguard the lives of American nationals, operating always under rules of reason and reasonableness. We do not expect them to move into outlying areas or to act as guards for persons or property stationed in and remaining in such areas. In moments of special danger, we request of our nationals who are in such areas that they withdraw therefrom and come to points at which we can with reasonableness endeavor to afford them protection. We expect of our landed armed forces assistance in the maintenance of communications, especially radio communications. We expect of them, in the event of developments which may call for evacuation of our nationals en masse from any given point, service in various capacities of armed escort. We expect of them the rendering of various miscellaneous services such as, for illustration, those which were rendered by them at Peiping in the autumn of 1937 and those which are being rendered by them currently in the presence of the situation produced by the floods at Tientsin. We expect them to operate in harmony with and in appropriate and practicable cooperation with the operations of the similarly landed armed forces of other countries whose objectives and problems are similar to ours.

We have not failed to envisage the possibility of a move on the part of the Japanese Government or Japanese armed forces toward occupation of the International Settlement at Shanghai in the absence

of war, or of possible similar acts at other points in China. In as much as it cannot be known in advance under what circumstances or in what manner such a move might in the future be made, it has been our feeling that to affirm in advance what we intend to do or not to do in the presence of such a contingency would be inadvisable. We expect of our diplomatic, consular, naval, and military authorities in China exercise of discretion within the framework of the principles which we have laid down, as stated above; we expect of them alert observation of impending developments; we expect of them anticipatory and prompt reporting; and we expect of ourselves such making of decisions and such issuing of instructions as in our best judgment may be called for in situations of special emergency when and as situations develop.

We share the view of the British Government that the small landed armed forces of the various occidental powers, in China, could not make any effective resistance to an effort on the part of the numerically superior Japanese armed forces in China to seize any point at which the said landed armed forces of the other powers are located; also, the further view of the British Government that such an effort, if made, would create the various hazards to which the British Government calls attention.

The British Government inquires in confidence whether, in the event of Japan becoming engaged in war with Great Britain or France, the Government of the United States intends to retain our garrisons in China, and, if so, what attitude we intend to adopt *vis-à-vis* Japan in the International Settlement at Shanghai. To this question, also, we find it impossible to give a categorical reply. Our action will have to be determined in the light of circumstances as the situation unfolds. We have stationed our landed armed forces in China when and as we have felt that circumstances called for their presence. We have stated publicly and repeatedly that we will remove those forces when and as we feel that their presence in China is no longer called for. The likelihood is that, in a contingency such as the British Government suggests, the need for presence of American landed armed forces for the protection of lives of American nationals would not be diminished. Our attitude *vis-à-vis* Japan in the International Settlement at Shanghai would have to be determined in the light of the attitude and acts of the Japanese and other governments and authorities. We would expect to continue our constant effort to afford appropriate and practicable protection to our nationals under rules of reason and reasonableness.

With regard to the position of American civilian nationals at Shanghai and Tientsin in the event of Japan becoming engaged in war with Great Britain or France, we consider it likely that we would

suggest to our civilian nationals that they withdraw to places of less danger. We would expect to afford assistance as regards facilities for withdrawal. We would expect to continue to afford appropriate and practicable protection to those who decline or who find it impossible to withdraw. Our action, however, as the situation unfolded, would have to be guided by developments.

With regard to a question of making suitable arrangements, should war supervene, for the welfare of British civilian nationals in China, we would be willing to approach the Japanese Government and would wish to be of such assistance as might be appropriate and practicable.

Should it be found necessary for the British garrisons at Shanghai and at Tientsin to lay down their arms, we would be prepared to suggest to the Japanese Government either an internment or a safe evacuation of such troops under United States' auspices.

The Government of the United States of course hopes that none of the contingencies under reference will arise. It realizes that, if any of them do arise, new and difficult problems will confront all of the governments which have interests in China; and, having constantly in mind not only its own rights and obligations but the rights and obligations of the various countries individually and collectively concerned, it will endeavor to shape its general course and its particular acts with due regard to the rights, obligations and interests involved.

WASHINGTON, September 4, 1939.

793.94/15340

*The Department of State to the British Embassy*⁴

WASHINGTON, September 5, 1939.

The Department has just received from the American Embassy in Tokyo a telegram⁵ stating that there has been given to the Chargé d'Affaires a copy of a note which has been handed to the Ambassadors of Great Britain, France, Germany and Poland, as representatives of the belligerent powers, and to the Italian Ambassador, as well as to the Chargé, in which the Japanese Government "offered a friendly advice to the belligerent powers concerned that they should voluntarily withdraw their troops and warships from" "those regions of China which are under control of the Japanese forces". The Japanese Foreign Office asked the Chargé to communicate this to the American Government "for its information".

⁴ The same on the same date to the French Embassy.

⁵ No. 458, September 5, 7 p. m., from the Chargé in Japan, *Foreign Relations*, Japan, 1931-1941, vol. II, p. 9.

Department assumes that the text of the note communicated to it is identical with the text communicated to the British and other Governments named.

The Department would appreciate being informed at the earliest possible moment what position the British and the French Governments contemplate taking in the presence of this communication.

761.6211/181 : Telegram

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

CHUNGKING, September 6, 1939—9 a. m.

[Received 1:47 p. m.]

519. My 515, August 30, 9 a. m. and Department's 165, September 1, 7 p. m.

1. I called upon Chiang Kai Shek September 5, 10 a. m. and read to him a paraphrase of the statement indicated by the Department. At his request I am leaving with him a copy to be regarded as a memorandum of an oral statement.

[2.] Chiang observed that the Department had not dealt with his question regarding the attitude of the American Government toward the German-Soviet nonaggression pact to which I pointed out that for the time being the conclusion of that pact did not seem directly to affect the international situation of the United States but I said that affairs were being closely watched and that if developments promised to affect our position the American Government would deal with them in accordance with its established policy. I gave him a copy of the summary of press comments saying that I thought this answered his inquiry as to reaction in the press of the United States.

3. He also indicated some disappointment that the Department's reply had not commented on request that the American Government urge Great Britain and France not to come to any understanding with Japan concerning their interests in the Far East. I pointed out that the reply showed that the Department had not been approached by the two Governments in question in reference to this matter and that it knew of nothing to warrant his apprehensions. I pointed out as a further reason for him to lay aside anxiety that Great Britain already has terminated the Tokyo conversations on the Tientsin issue by insisting that other nations interested through the Nine Power Treaty must be consulted in reference to matters of common concern. Chiang admitted all this but he again earnestly requested that the United States bring influence to bear on the British and French Governments to conform strictly to the principles of that treaty. The point that caused him most concern for the time being was fear that they might

be persuaded by Japan to close routes of communication through Burma and Indo-China; he argued that by closing these routes and thus making impossible the continuance of China's struggle for independence they would be violating the treaty in a flagrant manner.

4. Chiang evidenced disappointment that the Department's reply had not been more specific in its indication of the line which future policy of the United States would take in the face of the changed situation in the world and he used a Chinese idiom to designate policy which carries the implication of a charted course of action, saying that it was most important that he should have this knowledge in order to associate China's future course with ours. I observed that it was obviously impossible for the American Government to determine in advance upon any given line of action since the world situation was constantly changing, but I pointed out that he had just received unequivocal assurance that the American Government would not deviate from its announced principles of action, which is mutual respect between nations of their international obligations and of political and territorial integrity and he then seemed somewhat reassured. He inquired whether the message I had conveyed to him was from the President or the Secretary of State and I replied that while it was from the latter he could be sure not only that it was in accord with the President's views but that he was acquainted with its contents. Chiang asked that I convey to the Secretary his deep appreciation of the nature of the reply just received.

5. In conversations with the Minister for Foreign Affairs on the 4th and 5th the Minister informed me that the Chinese Government learned of a Japanese intention to disarm British and French armed forces in Concessions and Settlements on the ground that they were in occupied areas which must be neutral and to assume control of such areas (in this connection see Shanghai's 796, September 4, 5 p. m.).

Repeated to Peiping, Peiping please repeat to Tokyo.

JOHNSON

740.0011 European War, 1939/164 : Telegram

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

CHUNGKING, September 6, 1939—10 a. m.

[Received September 7—4:30 a. m.]

520. My 519, September 6, 9 a. m.

1. The following comment based on conversation with informed Chinese officials and on the local press throws an interesting light on views expressed by Chiang Kai Shek reported recently to the Department:

2. Official and press reaction here to recent European developments does not appear to have crystallized along definite lines though it is apparent that the outbreak of hostilities is genuinely deplored and that responsibility for the catastrophe is attributed to Hitler. The majority of enlightened Chinese would have preferred to see peace kept in Europe as this was considered to be in the interests of China and now that war has come there is of course much speculation concerning its effect on China and Japan and on the war in the Far East. The question of future world political alignment is receiving serious consideration and in this connection it may be said that the Soviet-German non-aggression pact is regarded as having isolated Japan and appears to have neutralized somewhat the adverse effects expected from the outbreak of hostilities and the assumed inability of Britain and France to protect their interests in the Far East. The following phases of the situation are being discussed in Chinese official circles:

3. England and France: There is widespread apprehension that Great Britain and France are endeavoring to arrive at a compromise with Japan, at the expense of China, in order to safeguard their interests in East Asia. Authoritative Chinese circles profess to have information that the Japanese Foreign Office has already sent instructions to Japanese consular establishments in China to desist from the anti-British campaign but that this abrupt change in policy has failed to date because of the refusal of the Japanese military authorities to conform thereto. British and French measures looking to cooperation with the Japanese in the occupied areas and prohibition of the shipment of arms through French Indo-China and Burma to China are thought to be possible and if carried out would affect China's capacity to continue effective resistance.

4. Russia: Chinese official circles appear convinced that the Soviet Union will continue its policy of affording substantial material support to China; there is reason to believe that Russia has given China positive assurances to this effect. Moreover it is felt that Russia will continue to take measures on the Siberian and Mongolian borders designed to require the presence of large numbers of Japanese troops in Manchuria although without any intention to start large scale operations. In a word Russian policy is thought to envisage protection of its borders and those of Outer Mongolia and simultaneously assistance to China in carrying on the conflict with Japan. The cooperative characteristic of present day Sino-Russian relations appears to be amply evidenced not only by the steady support given by Russia to China but by the sudden action of Russia following the negotiation of the Soviet-German pact in appointing an erstwhile Trade Commissioner as Ambassador to China and by the reported action of China

in accepting the appointment of the new Russian Ambassador without requiring the usual letter of credence.

5. **United States:** Chinese opinion appears to place the greatest trust and confidence in the Far Eastern policy of the United States though much disappointment and perturbation exist at what is regarded as the overly slow and cautious attitude and actions of the United States. Most Chinese feel that there can be no real solution of the Far Eastern problem without intervention of the United States in defense of the concepts of the treaties, and that such action on the part of the United States would soon force Japan to abandon its present attempt to obtain the hegemony of East Asia. While few Chinese feel that the United States should or need become embroiled in armed conflict with Japan, they believe that the United States should sever trade relations with Japan or at least stop shipments to that country.

6. **Japan:** Chinese observers are of the opinion that apart from endeavoring to mitigate the effects of the German-Russian non-aggression pact as related under paragraph 3 above the new Japanese Cabinet will adhere to the policy of recent Cabinets in respect of China. They believe that there will be an intensification of Japanese efforts to obtain economic control of the French-British areas as exemplified by the recent order for the collection of [revenue?] at Shanghai in Huahsing currency and the scheme for a central puppet regime under Wang Ching Wei and that a final supreme military effort will be made to [apparent omission] organized Chinese military intentions. The threat of Japanese financial and currency measures appears to cause the most apprehension among the three measures outlined above; Wang Ching Wei's activities are regarded as unlikely to succeed. The conviction is expressed in Chinese military circles that the Chinese Army is fully capable of coping with any Japanese attempt to advance into West China.

It is stated that China has approximately 1 year's supply of war materials and is almost self-sufficient in respect of small arms upon which it largely relies in the [guerilla?] type of warfare being conducted today.

In summary then Chinese opinion does not feel that the opening of general hostilities in Europe will exert any immediate or profound influence on the trend of developments in the Far East but certain secondary possibilities are causing anxiety as potentially prejudicial to China's success in the hostilities.

Repeated to Peiping, Peiping please mail to Tokyo.

JOHNSON

793.94/15349 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, September 6, 1939—7 [5] p. m.

[Received September 6—11:08 a. m.]

459. Our 458, September 5, 7 p. m.⁶

1. There is quoted in the telegram immediately following⁷ the text of a telegram which the British Ambassador despatched today to London suggesting in outline the reply which should be sent to the Japanese Government's note quoted in our telegram under reference. The French Ambassador is telegraphing in substantially similar terms to his Government.

[For paraphrase of remainder of telegram No. 459, see *Foreign Relations, Japan, 1931-1941*, volume II, page 10.]

DOOMAN

893.1028/1877 : Telegram

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

CHUNGKING, September 7, 1939—1 p. m.

[Received September 7—4:30 a. m.]

521. Shanghai's 796, September 4, 5 p. m. A responsible official of the Chinese Foreign Office has orally informed an officer of the Embassy that the Chinese Government has information that the Japanese authorities intend as of noon of September 8 to commence replacement with Japanese forces of the armed forces of the belligerent nations in the French Concession and the International Settlement of Shanghai.

Repeated to Peiping and Shanghai. Shanghai please repeat to Tokyo.

JOHNSON

793.94/15352 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, September 7, 1939—7 p. m.

[Received September 7—2:08 p. m.]

1502. Your 813, September 6, 6 p. m.⁸ The Department's inquiry was discussed informally at the Foreign Office today. They hope in

⁶ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 9.

⁷ No. 460, September 6, 7 p. m. (not printed); in this telegram, the Chargé in Japan quoted the British Ambassador's telegram suggesting that his Government inform the Japanese Government of its intention to retain its troops and ships in the Far East as long as needed to protect British interests and that it was anxious to continue efforts to settle differences with Japan by friendly negotiations (793.94/15348).

⁸ Not printed; see first paragraph of telegram No. 276, September 6, 6 p. m., to the Chargé in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 12.

the immediate future to be in a position to exchange views with us. It was stated informally, however, that in the last analysis the position that Great Britain would have to take will, in view of existing circumstances, have to depend on what the position of the United States is to be.

KENNEDY

893.0146/722 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)^{8a}

WASHINGTON, September 7, 1939—7 p. m.

277. Your 463, September 7, 6 p. m.⁹ Following a conference which I had at the White House, I requested the Japanese Ambassador to call today at 5 p. m., at which time I made to him an oral statement substantially as follows:

[See memorandum of September 7 printed in *Foreign Relations, Japan, 1931-1941*, volume II, page 12.]

HULL

800.3393/622 : Telegram

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

CANTON, September 7, 1939—11 p. m.

[Received September 13—1:35 p. m.]

112. This afternoon my Japanese colleague called and after stating that Japan will remain strictly neutral in the European war and that it will concentrate on the China affair informed me that he had this morning asked the British Acting Consul General and [the French?] Consul General to withdraw their gunboats from Canton waters. He added that this information was being conveyed to me and the Italian Consul under instructions from his Government.

It is understood that the Consuls concerned have referred the matter to their respective Governments. It may be mentioned that the French gunboat is now in Hong Kong and that Japanese agreement to its return to Canton might be difficult to obtain. There is one British gunboat here.

It will be recalled that shortly after the commencement of the World War the German gunboat at Canton was disarmed and placed in the custody of the customs and that the British and French gunboats were withdrawn from Canton waters.

Repeated to Chungking, Peiping, Hong Kong.

MYERS

^{8a} The same telegram, with an introductory sentence, sent on the same date to the Ambassadors in France and the United Kingdom as Nos. 818 and 844, respectively.

⁹ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 15.

793.94/15354: Telegram

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

PARIS, September 8, 1939—1 p. m.
[Received September 8—12:55 p. m.]

1842. I communicated the contents of your 818, September 7, 7 p. m.¹⁰ to Leger¹¹ this morning. He replied that the information reached him most opportunely since he had received this morning from the British Foreign Office a statement of the views of the British Government on this subject.

He gave me briefly the gist of the British position which was: that unless the Government of the United States prepared to take an energetic position with regard to this matter the British Government would feel obliged to withdraw all British troops from China giving as an excuse the need for such troops in Europe.

Leger expressed his profound gratitude for the information which I had been able to give him.

BULLITT

793.94/15366: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 9, 1939—noon.
[Received September 10—5 a. m.]

475. The Counselor of the Japanese Embassy called on me late yesterday afternoon and handed me a copy of the statement contained in Tokyo's #458, September 5, 7 p. m. to Department.¹² The Counselor stated that the copy was furnished under instructions from his Government.¹³ He remarked that he hoped that it would be understood that the Japanese Government had no intention of taking advantage of the European situation and that the advice looking to the withdrawal of the British and French troops from the Concession and Settlement areas was intended as a precautionary measure against possible trouble between the Japanese and British and French. He remarked further that troops might get out of control as the result of some more or less minor incident. He stated that whereas difficulties between soldiers of the British and Japanese forces have heretofore been amicably settled (these having been settled by him during the past week) he was not so certain that further incidents of this kind could be adjusted inasmuch as the new situation growing out of

¹⁰ See footnote 8a, p. 238.

¹¹ Secretary General of the French Foreign Office.

¹² *Foreign Relations*, Japan, 1931-1941, vol. II, p. 9.

¹³ Similar Japanese notices were given American consular officers at Hankow, Shanghai, and Tsingtao.

the war had made the soldiers less amenable to discipline and more apt to create disturbances. My only comment was that it seemed to me the responsible officers could be depended on to control their men and that both officers and men should be even more anxious than before to maintain peace and order in the neutral areas. He stated that the Japanese were quite prepared to guarantee the maintenance of peace and order and that there was no disposition to oppress Britain and France.

Repeated to Chungking, code by air mail to Tokyo.

LOCKHART

793.94/15367: Telegram

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

CHUNGKING, September 10, 1939—10 a. m.

[Received September 10—5 a. m.]

523. Following is substance of a message which Rajchman¹⁴ asked McHugh to send for him to Ambassador Bullitt. He informs Bullitt that he would be grateful if Mandel¹⁵ informed that Chiang Kai Shek is determined to resist and resents French diplomatic suggestion of compromise with Japan. Says it is important that supplies now at [Haiphong?] and in transit reach interior as rapidly as possible. He presumes that arrangements conveyed through him still stand and that French Government is therefore ready to set up proposed transit Bureau. He is proceeding to Hanoi next week to meet Catrou¹⁶ and trusts that Catsamara¹⁷ has been authorized to discuss freely with him this and other questions which were arranged at time of his departure from Paris. Says apprehension exists here of a liquidating deal between Allies and Japan which might result in difficulties over the further use of Burma and Indo-China routes and that this feeling is being exploited here by Soviet sympathizers and those other Communists. Says that it is important that Allies firmly reassure China on this point and affirm that they will not condone Japanese aggression. He points out that fresh supplies from the West must necessarily originate predominately from United States unless China is to be thrown exclusively on dependence upon Soviet Russia particularly since China aviation now depends largely upon Soviet pilots. Says Chinese leaders appreciate his sympathies.

We did not endeavor to communicate this message to Ambassador Bullitt, merely to send it to Washington there to be dealt with as Department considered fitting.

JOHNSON

¹⁴ Ludwig W. Rajchman, Polish technical adviser of the League of Nations to the Chinese Government.

¹⁵ Georges Mandel, French Minister of Colonies.

¹⁶ Acting Governor General of French Indochina.

¹⁷ Apparently Japanese Army agent in French Indochina.

893.0146/701

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] September 11, 1939.

Reference, London's strictly confidential telegram no. 1541, September 8, 11 p. m.,¹⁸ and Department's telegram no. 844, September 7, 9 p. m., to London.¹⁹

On the evening of September 9, with the approval of FE²⁰ and authorization of the Secretary, I talked with Mr. Mallet as follows:

I referred to the British Embassy's *aide-mémoire* of August 29 on the subject of use of landed armed forces in China and to the Department's *aide-mémoire* in reply of September 4. I then read to Mr. Mallet the statements which Mr. Kennedy attributes to Mr. Cadogan²¹ to the effect that, as the British defense forces at Tientsin consist of only half a battalion, there would be, "if the Japanese attempt to go the limit there", nothing that those soldiers could do except, if ordered to do so, to die fighting; and that he, Cadogan, thought such a stand would be unwise; and, that the British Government still has under consideration the reply to be made to Japan, it being obvious that they cannot offer a show of force and that what they do in last analysis depends on what the United States does. I said that, on the basis of the British Embassy's *aide-mémoire* of August 29, we had assumed that the British Government had already arrived at fixed conclusions and had given instructions covering such contingencies. I further said that it is our view that it is one thing to yield positions and to submit to impairment or destruction of rights in the presence of *force majeure* and quite another thing to capitulate to threats or to sign away rights or titles; that, although this Government had felt it desirable to make to the Japanese Government critical and adverse comments on the subject of the "advice" given by the Japanese Government to the belligerent governments and shown "for information" to this Government and at least one other neutral government, we are wondering whether there is really any necessity for the making by the belligerent governments of any specific reply to the Japanese Government's communication; that there seem to us three possibilities, to give a "yes" answer, to give a "no" answer, or to make no reply at all; and that the making of no reply at all would leave the Japanese guessing and would leave the question open.

Mr. Mallet thanked me for giving him this expression of views and said that he would send off during the night a telegram giving their substance.

STANLEY K. HORNBECK

¹⁸ Not printed.

¹⁹ See footnote 8a, p. 238.

²⁰ Division of Far Eastern Affairs.

²¹ Sir Alexander M. G. Cadogan, British Permanent Under Secretary of State for Foreign Affairs.

793.94/15369 : Telegram

*The Ambassador in France (Bullitt) to the Secretary of State*PARIS, September 11, 1939—1 p. m.
[Received September 11—11:53 a. m.]

1901. Chauvel, Chief of the Far Eastern Section of the Foreign Office, called on me this morning to show me in greatest confidence a note which had been received last night by the French Government from the British Government dealing with the question of withdrawal of troops from China referred to in your 818, September 7, 7 p. m.²²

The British note stated that the American Ambassador in London had communicated the contents of your telegram under reference to the British Government.

The British Government nevertheless was not certain to what extent this statement of the Secretary of State to the Japanese Ambassador indicated that any real support from the American Government could be expected in the Far East. It was the impression of the British Government that while the position of the Government of the United States with regard to Shanghai might be more or less firm the United States would be unwilling to take any position with regard to the Tientsin area in which America had no interests and Great Britain was greatly exposed.

The British note went on to say that the British Government was most apprehensive that at any moment there might be military clashes between the British forces in the Tientsin area and the Japanese. The British Government had decided therefore to suggest to the French Government that the British Government should inform the Japanese Government immediately that since Great Britain needed the troops and officers now in China for use in the war now in progress in Europe these troops would be withdrawn immediately from the Tientsin area; but that the question of withdrawal from the Shanghai area was a more complicated one which was being studied.

The British note went on to say that the British Government hoped that the French Government would agree that this was the wise policy to pursue, and asked for an immediate reply from the French Government.

(Incidentally Leger had made an annotation on the British note stating that when it had been delivered to him by Mr. Wright, First Secretary of the British Embassy, Mr. Wright had added the information that Ambassador Craigie in Tokyo was opposed to the withdrawal of British troops from the Tientsin area.)

Chauvel said that both he and Leger were opposed to the policy that the British desired to pursue. They felt that if the British

²² See footnote 8a, p. 238.

should withdraw their troops in this manner the Japanese would be encouraged to make further demands.

They both felt that there was a possibility that a settlement might be reached of the war between China and Japan provided France, England, and the United States should show sufficient firmness at the present time.

They both felt that the statement of the Secretary of State to the Japanese Ambassador on September 7th²³ had been of the utmost importance and they desired to reply to the note of the British Government that in view of the statements of the Secretary of State they believed that the French and British Governments should take no action in the premises without previous consultation with the American Government.

I gathered that the French Government would reply to the British Government this morning advising the British Government that in its opinion the French and British Ambassadors in Washington should be instructed to call on you at once to discuss this question.

Chauvel added that he had two pieces of fragmentary information supposedly of great importance. A telegram from the French Ambassador in Tokyo which had been badly garbled in transit a portion of which was missing indicated that on the 26th or 27th of last month the Japanese forces had been defeated severely by Russian forces in an engagement on the Manchurian-Mongolian border. The second piece of information was a brief word from Saint-Quentin²⁴ to the effect that the American Government had information that the German Government through its Ambassador in Moscow had been able to arrange an agreement between the Soviet Union and Japan.²⁵

Chauvel concluded by saying that under the circumstances it was obvious that the question must be discussed in Washington and that the French Government would not acquiesce in the policy proposed by the British note before consultation with Washington.

BULLITT

793.94119/580: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 11, 1939—2 p. m.
[Received September 11—9:44 a. m.]

478. Following sent to the Ambassador, September 8:

"September 8, 3 p. m. Dr. Stuart brought me a telegram recently which he asked me to send to Doctor Kung through you and which I

²³ See memorandum by the Secretary of State, September 7, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 12.

²⁴ French Ambassador in the United States.

²⁵ See pp. 1 ff.

declined to send because I felt that the contents of the message were such that if they were to become known now or later the Embassy at Chungking and here as well might be greatly embarrassed. Dr. Stuart thoroughly understood and appreciated my position.

He has now brought me another telegram for Kung the substance of which is as follows in case you wish to bring it to the attention of the addressee:

Definite progress making. If recent happenings cause variation from our conversation please advise me word. (End of summary.)

In the utmost confidence Stuart informed me that the above message has to do with peace overtures and that both Kung and Chiang Kai Shek are privy to what is going on here between Stuart, Wang Keh Min and Kita. Stuart stated that he thought that within 2 weeks some sort of a concrete peace proposal might be formulated and put forth. He seemed somewhat optimistic that the military authorities might make some concessions not heretofore thought likely.

I should greatly appreciate some indication from you as to just how far I should go in transmitting to you, and in what form, messages or information such as contained herein. My own feeling is that such messages should not be transmitted. If you consider that this telegram should be repeated to the Department, which I believe should be done in view of the information contained therein, please advise me."

Following reply has been received today:

"September 10, 9 a. m. Your September 8, 3 p. m. I agree that neither you nor I should have anything whatever to do with transmission of such messages. Please give Department copy of your message and this reply."

LOCKHART

893.0146/693 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, September 11, 1939—8 p. m.

[Received September 11—4:06 p. m.]

1597. My 1541, September 8, 11 p. m.,²⁶ last paragraph. The head of the Far Eastern Department of the Foreign Office stated in a conversation this afternoon that they are considering the possibility of using the flood situation at Tientsin as the ostensible reason for pulling the British troops out. This would arise of course only in the event that countries with armed forces at Tientsin agree as to a policy of withdrawal. According to reports received by the Foreign Office, floods have made completely uninhabitable the British barracks at Tientsin and sanitary conditions are so bad that the health of the troops is in serious danger.

²⁶ Not printed.

The official suggested that they would simply notify the Chinese that, owing to the situation created by the floods, the destruction of the barracks, danger to health through unsanitary conditions, et cetera, they had decided to withdraw the British troops subject however to the proviso that they would be returned later if the British Government deemed it necessary. After this arrangement had been made with the Chinese, they would then inform Japan of what had been done.

I was requested to transmit the foregoing information to the Department simply as an indication of what is considered here to be a possible way of procedure.

KENNEDY

793.94/15367 : Telegram

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

WASHINGTON, September 12, 1939—5 p. m.

170. Your 523, September 10, 10 a. m. The Department has telegraphed Ambassador Bullitt at Paris a paraphrase of the message contained in your telegram under reference and has added 2 additional paragraphs of comment which are quoted for your information and guidance, as follows:

“We are informing Johnson that we have transmitted this message but are asking him to discourage the author from requesting any repetition of such use of our channels.

For your further information, we find both the Chinese and the Japanese Governments constantly seeking to convey by indirect routes or unofficial channels, and often by both, views and inquiries and suggestions which we feel should, so far as we are concerned, be communicated by them to us directly, if at all. It is our policy to discourage, of course tactfully and always with possible exception in the light of circumstances, such procedure.”

HULL

793.94/15371 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 12, 1939—7 p. m.

[Received September 13—7 a. m.]

471. 1. The Imperial Headquarters has just issued the following communiqué:

“In view of present conditions and to facilitate final settlement of the China incident, the new Supreme Command of the armies in China has been established.”

2. The War Department simultaneously announced the following appointments: General Toshizo Nishio, Commander in Chief of the

armies in China; Lieutenant General Seishiro Itagaki, Chief of Staff of the armies in China; Lieutenant General Yoshijiro Umezu, Commander in Chief of the Kwantung Army; General Gen Sugiyama has been appointed to the Military Council.

Shanghai please repeat to Chungking, Peiping.

DOOMAN

740.00111 European War, 1939/195 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 13, 1939—3 p. m.
[Received September 13—2:05 p. m.]

474. Our 472 of September 12, 8 p. m.²⁷ The French Counselor delivered to the Foreign Office yesterday afternoon under instructions from his Government a note identical to that delivered by the British Embassy.

At the time Baron Fain delivered the note he remarked to Kurihara²⁸ that as set forth in the note he failed to understand the reasons for the advice given in the Japanese note of September 5. Kurihara's reply as telegraphed to Paris by the French Embassy reads in translation as follows:

"1. In China in the cities where there are French Concessions there are Japanese civilians and military who are hostile in sentiment toward France and England which countries are considered to be aiding Chiang Kai Shek. It is believed that because of these hostile feelings there may be serious incidents due to the war in Europe. As a matter of fact there are Japanese who wish to use the war in Europe as an excuse to drive out the French and English troops and take over the Concessions. For these reasons the Japanese Government thinks it is preferable now to remove the causes which might bring about an incident and these causes are considered to be the presence of troops and warships.

2. Kurihara also gave as secondary reasons the following:

The disputes which have already arisen with Germans in the Settlement.

The possibility of hostilities in Shanghai should the Italians enter the war.

The departure in 1914 of the French and Japanese troops as well as the absence of a French garrison in Shanghai.

3. During the discussion which followed Kurihara developed the following thesis:

"We are sure that the Soviets will not attack us and we wish to profit thereby to bring to an end the China incident, settlement of which has been only retarded by English and French aid to the Chinese. The Japanese are therefore profoundly

²⁷ Not printed.

²⁸ Director of East Asiatic Bureau, Japanese Foreign Office.

hostile toward the English (infinitely more so than they are towards the Germans). From all of which arises our wish to avoid incidents.”

Shanghai please repeat to Chungking, Peiping.

DOOMAN

893.0146/694: Telegram

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

PARIS, September 13, 1939—3 p. m.
[Received September 13—2:08 p. m.]

1936. My 1901, September 11, 1 p. m. Leger informed me this morning that the French Government had sent a note yesterday to the British Government expressing the opinion that before the British troops should be withdrawn from the Tientsin area or other places in China the British and French Governments should consult the Government of the United States in Washington.

Leger added that this note had been crossed by an urgent note from the British Government which had reached him this morning which stated that the British Government desired to withdraw at once not only its soldiers from the Tientsin area; but also its naval vessels from the Yangtze.

The British Government was informed that whatever might be the policy of the Japanese Government the Japanese Army in China desired to provoke conflict with France and Great Britain and desired to reach an immediate agreement with both Germany and the Soviet Union.

The British Government was apprehensive that any day might bring action by the Japanese Army in China which might be the spark that would set off war between Great Britain, France and Japan. The British therefore desired to use the excuse of the floods in the Tientsin area to withdraw from that area and also desired to get the boats on the Yangtze out at once.

Leger added that the French Ambassador in Tokyo had telegraphed recommending that the French commanders of French naval vessels in Chinese waters should be given full discretion to accept demands of the Japanese if they should consider acceptance desirable.

Leger said that his own information indicated that the Germans were working with some success to bring together the Soviet Union and Japan. He did not believe that agreement had yet been reached between the Soviet Union and Japan but he believed that discussions were under way which might lead to agreement between the Soviet Union and Japan and might lead to a great intensification of pressure against the French and British in China.

BULLITT

793.94/15372: Telegram

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

PARIS, September 13, 1939—7 p. m.
[Received September 13—6:47 p. m.]

1953. For Hornbeck. Your 884, September 12, 5 p. m.²⁹ I have not transmitted and will not transmit the message you communicated in your telegram under reference. I have, however, requested Rajchman's eminent associate in Paris to inform Rajchman that I resent his attempt to use me as a hopper for communications of this sort.

BULLITT

761.94/1184: Telegram

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

PARIS, September 14, 1939—6 p. m.
[Received 6:20 p. m.]

1972. Information reaching the French Government from a number of different sources indicate that the Japanese Government has reached some sort of an agreement with the Soviet Government which has relieved the Japanese Government of all fear of attack by the Soviet Union.

I should be greatly obliged if you would telegraph me any information that you may have on this subject.

The Chinese Ambassador called on me today and stated that his Government feared that in spite of the assurances which had been given to Sun Fo³⁰ recently in Moscow to the effect that the Soviet Union would continue to support and supply the Chinese Government the Soviet Union might be engaged in reaching some sort of an agreement with Japan.

He stated that he saw many signs that Great Britain and France were about to diminish seriously their support of the Chinese Government. He added that if the Soviet Government should reach agreement with the Japanese Government he feared the British and French Governments might be obliged to promise to close the Indo-China and Burma routes.

He stated that he believed that the Japanese Government would recognize *de facto* a so-called Chinese Government under Wang Ching Wei and would henceforth attempt to make the war in China appear to be a civil war between two rival factions of Chinese. The Wang Ching Wei Government would be used by Japan to drive the French, British, and Americans out of China.

²⁹ Not printed, but see telegram No. 170, September 12, 5 p. m., to the Ambassador in China, p. 245.

³⁰ President of the Chinese Legislative Yuan.

The Chinese Ambassador expressed the opinion that if a Wang Ching Wei Government should be set up and if France and England should withdraw their present support of the Chinese Government Chiang Kai Shek might lose the support of the Chinese people which he has today and resistance to Japan might collapse.

Information as to the exact status of relations between Japan and the Soviet Union is obviously of vital importance.

BULLITT

761.94/1141

*The Chinese Embassy to the Department of State*³¹

Reliable Chinese source from Moscow reports that responsible Soviet authorities have stated that the rumor of the negotiation of a non-aggression pact between Soviet Russia and Japan is absolutely groundless; that it has been the determined national policy of Soviet Russia to give China sympathetic assistance in her resistance to Japan; and that such policy will in no way be affected by the changing situation in Europe.

The Soviet authorities have further declared that:

(1) The Soviet Government, faithful to its traditional policy and to the recent decision of the Supreme Council to maintain strict neutrality toward the war in Europe, will certainly not participate in the European conflict; and

(2) The Soviet Government will always be on the alert and be ready to deal effective blows to the Japanese. The rumor of the negotiation of a non-aggression pact between Soviet Russia and Japan must have been fabricated with malicious motive.

[WASHINGTON,] September 14, 1939.

893.0146/695: Telegram

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

PARIS, September 15, 1939—1 p. m.
[Received September 15—10:20 a. m.]

1978. Leger said to me this morning that the British Government had made no reply to the French Government's note suggesting that the British and French Governments should consult Washington before withdrawing any troops or naval vessels from China.

The British Government had informed the French Government

³¹ Transmitted by the Adviser on Political Relations to the Secretary of State on September 15 with comment as follows: "I see no reason for doubting that 'responsible Soviet authorities' have made the statements attributed to them. However, what they might say or do in one connection need in no way be consistent with what they might say or do in another connection."

last night, however, that it was sending the French Government another note this morning urging most strongly that orders for the withdrawal of British and French military units from China should be issued with the greatest haste.

The British Government feared immediate incidents which might provoke armed conflict between Great Britain, France and Japan.

Leger added that the British Government had been unable to obtain any authoritative information on the present negotiations between the Soviet Union and Japan but feared that they might result in Japan being given a free hand in the Far East.

BULLITT

761.94/1136: Telegram

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

PARIS, September 15, 1939—5 p. m.
[Received September 15—2:45 p. m.]

1986. The Chinese Embassy in Paris informs us that Sun Fo called on Molotov yesterday and requested information regarding the Soviet-Japanese negotiations which he understood were being carried on.

In reply Sun Fo received assurances that there would be no change in the Soviet foreign policy vis-à-vis the Far East.³²

BULLITT

793.94/15339

Memorandum by the Adviser on Political Relations (Hornbeck) to the Secretary of State

[WASHINGTON,] September 16, 1939.

MR. SECRETARY: There is attached (sent to you by Admiral Stark³³) a copy of a full report which Admiral Yarnell³⁴ made to the Secretary of the Navy under date July 20, 1939 on the subject "The Far Eastern Situation".³⁵ I feel moved to call to your attention some of the views which Admiral Yarnell expresses in this report, as follows:

(1) Japan will intensify its campaign against the foreign concessions. This campaign is the major one in Japanese minds. Taking over the concessions, thus acquiring control of trade and finance and capturing the silver stocks, would be equivalent to many victories on

³² See also telegram No. 546 bis, September 15, midnight, from the Ambassador in the Soviet Union, p. 70.

³³ Adm. Harold R. Stark, Chief of Naval Operations.

³⁴ Adm. Harry E. Yarnell, then Commander in Chief, U. S. Asiatic Fleet.

³⁵ Not printed.

the battlefield. It would also mean elimination, perhaps only temporarily, of the white race from China and would, consequently, spur Japan to greater efforts to terminate the "incident" successfully. Conversely, the effect on the Chinese Government would be disastrous. The campaign against British interests coupled with studied friendship for the United States and France is a simple-minded effort to prevent concerted action. (pages 8-9)

(2) The Tokyo Government is generally impotent to deal with affairs in China. In many cases it is entirely ignorant of what is going on. Japan's policies are determined by a ruthless military clique which understands nothing but force. The Commander in Chief, Asiatic Fleet, has recommended that, for every note written, there should be some increase in United States armed forces in the Far East. (page 10)

(3) A free, stable, democratic government in China is essential to the peace of eastern Asia and our own welfare. For our safety, we cannot permit a nation imbued with the views of Japan's ruling clique to acquire the power resultant from domination over the people and resources of China. We should support a free government in China, and our own rights in the Far East, even if it results as a last resort in armed intervention. (page 10)

(4) In dealing with Japan we should recognize that any action supporting the Chinese Government will receive the backing of Great Britain. (Note: This was written before the Russo-German non-aggression agreement and recent reports of Anglo-Japanese discussions looking toward basic agreement. Today Admiral Yarnell might assert that our action would in fact be to Britain's long-time advantage. The primary emphasis in this part of Admiral Yarnell's report was upon the essential unity of interests and the need for unity of action by the democratic countries.) The "pulling of chestnuts" is a mutual affair in the Far East and we should never become involved in disputes singlehanded (i. e. presumably, allow ourselves to be maneuvered by the Japanese into a position of isolation when British and other European interests are basically similar). (pages 11-12)

(5) The four interested signatories of the Nine Power Treaty, i. e. France, Great Britain, the Netherlands, and the United States, should re-affirm in positive terms that no settlement will be recognized that is not in consonance with that treaty. Also, every support should be given the Chinese Government to enable it to continue the war. Chiang Kai-shek is the national hero of the great mass of the Chinese people. If his government falls, chaos will rule in China. (page 20)

STANLEY K. HORNBECK

893.0146/696a : Telegram

*The Secretary of State to the Chargé in Japan (Dooman)*³⁶

WASHINGTON, September 16, 1939—4 p. m.

290. Department's 277, September 7, 7 p. m. On September 15 the Japanese Ambassador called at his own request³⁷ and stated that his Government had instructed him to elaborate upon what he had said to me last week.³⁸ He prefaced his statement by indicating that he wished to include in his discussion the armed forces of the powers at Tientsin and Peiping as well as at Shanghai. I interrupted to say that while our conversation last week related primarily to the situation in the International Settlement at Shanghai I had in mind also the Tientsin and Peiping situations but assumed that no special discussion of the situations at Tientsin and Peiping was necessary for the reason that the rights of all foreign governments in respect to the stationing of armed forces there were fixed by the Boxer Protocol.

The Ambassador went on to say that Japan was desirous of remaining neutral in the European war and that Japan's *démarche* to the British and French to withdraw their troops would tend to remove complications and possible clashes as, for example, between British and French troops on the one hand and Italian troops at Shanghai should Italy enter the war or between British troops and German nationals at Shanghai. The Ambassador added that his Government had no idea of inviting the American armed forces to withdraw from Shanghai. He indicated also that the Japanese and American Governments might be in key positions to promote peace should psychological occasion present itself.

I pointed out to the Ambassador that the primary functions of the armed forces of the powers at Tientsin and Peiping and in the International Settlement at Shanghai were that of guards as a protection against uncontrolled irresponsible forces with which the regular police could not cope and that consequently the Japanese Government was not warranted in proposing the withdrawal of the British and French armed forces on the theory that they were forces with primarily military functions. I asked that his Government keep in mind that questions pertaining to these forces have no important direct relationship with whatever plan Japan now has in China. I reemphasized the view of this Government that for the Japanese to force the British and French forces out of Shanghai would disrupt the whole structure of the administration of the International Settlement, would seriously

³⁶ Similar telegrams were sent to the Embassies at London and Paris for the British and French Foreign Offices and to the Consul General at Shanghai.

³⁷ See memorandum by the Secretary of State, September 15, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 15.

³⁸ See memorandum by the Secretary of State, September 7, *ibid.*, p. 12.

affect the rights and interests of Americans there, and would lend color to reports already prevalent that Japan's purpose is to sweep all foreigners out of China. I pointed out also that the feeling created among the American people against Japan would result in losses to Japan outweighing any trivial advantage gained by Japan from the action under reference, if taken.

When the Ambassador said that his Government would expect to confer with this Government in regard to questions relating to the policing of the International Settlement at Shanghai I made no comment. I added, however, that, taking the genesis of the entire situation there and considering all of its phases up to the present, my Government could not bring out its guards on the basis of an unwarranted suggestion or threat by another government. The Ambassador made no comment on this. He left with a promise that he would take up the matters further as I had requested.

You are authorized in your discretion to inform your British and French colleagues orally and in confidence of the foregoing.

HULL

893.0146/703

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] September 18, 1939.

The Italian Ambassador called on me, having been referred to me by Mr. Dunn.³⁹ The Ambassador wished to talk about the foreign armed forces in China. In reply to a question which I had put to Mr. Dunn, the Ambassador had stated to Mr. Dunn that he was calling on this subject under instruction from his Government.

The Ambassador opened the conversation with a confused and inaccurate account of the notification ("advice") given by the Japanese Government to the belligerent governments suggesting that those governments withdraw their naval vessels and troops from China. The Ambassador inquired what were the American Government's views. I made to the Ambassador a precise statement regarding the "advice" given to the belligerent governments and the information thereof given to this Government and, as we understood it, to the Italian Government. I then said that this Government perceived and admitted no right or warrant for the offering by the Japanese Government of this "advice". The Ambassador said that he understood that the Secretary and the Japanese Ambassador had recently had two conversations⁴⁰

³⁹ James C. Dunn, Adviser on Political Relations.

⁴⁰ September 7 and 15; see memoranda by the Secretary of State, September 7 and 15, *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 12 and 15, respectively.

and he wondered whether the Secretary had stated this Government's attitude. I said that the Secretary had reviewed for the Japanese Ambassador the history of Shanghai, the character of the International Settlement, the rights and interests of the United States, our view of common rights and common objectives and common responsibilities in connection with problems of law and order, and our conception of the character and functions of the United States landed forces in China. The Ambassador made no comment and asked no further questions. He made a casual remark to the effect that the world is in turmoil and neutral governments are confronted with many difficult problems. He followed this with various gloomy but platitudinous observations with regard to the situation in Europe. I made no attempt to comment upon his observations or to dissipate or intensify his gloom.

STANLEY K. HORNBECK

793.94119/584 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 19, 1939—2 p. m.
[Received September 19—1:50 p. m.]

498. Peiping's 478, September 11, 2 p. m.

1. Kita left for Japan by air a few days ago where he went, according to an American who is in position to know his movements and his plans, for the purpose, among other things, of informing the Japanese Government that the Chinese Government is prepared, as a result of recent preliminary inquiries at Chungking, to enter into peace discussions on the basis of a complete withdrawal of all Japanese troops south of the Great Wall as an essential requirement to the maintenance of the territorial integrity of China; that once this withdrawal has taken place the Chinese Government will be willing to entertain cooperation between the two countries for the economic development of China, together with other forms of cooperation, on terms of perfect equality free from any military intimidation or force, Manchuria to be left completely out of any discussions. On being asked whether this proposal (which did not seem to be altogether new) originated in Peiping or Chungking, my informant replied that it originated in Peiping and that Chiang Kai Shek had sanctioned it, which sanction presumably was obtained when informant was in Chungking recently. I made no comment in connection with the matter. It appears that certain diminutive officials of the Provisional Government profess to believe that relatively liberal elements

are in the ascendancy in Japan notwithstanding the recent appointment of General[s] Nishio and Itagaki.

2. Kita will proceed from Tokyo to Nanking to attend the joint conference of representatives of the Japanese sponsored governments in China which is to be held at Nanking on September 20. Wang Keh Min has already gone to Nanking. Informant stated that Wang Keh Min will endeavor to prevent the establishment of an amalgamated central government but that Kita will merely endeavor to postpone the organization of such a government. It appears that Wang Keh Min, not wishing his relations with the Central Government to be impaired, does not wish a new government headed by Wang Ching Wei to come into being whereas Kita while favoring an amalgamated government believes it would be well to postpone this action since he believes that there is a probability of the Japanese Government coming to terms with Chiang Kai Shek in the next few months on the basis above described.

3. The extensive movements of Japanese troops out of North China which has been taking place during the past week (see Peiping's 497, September 18, 7 p. m.⁴¹) continues to be a puzzle.

Repeated code text to Tokyo by air mail.

LOCKHART

893.0146/712

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 19, 1939.

The British Ambassador called at his own request and handed me an *aide-mémoire*, a copy of which is attached,⁴² relative to the Far Eastern situation, with particular reference to the foreign armed forces at points in China.

I replied by setting forth the substance of my recent conversation with the Japanese Ambassador,⁴³ which need not be repeated here, and added that my Government had promptly made earnest representations to the Japanese Government at every stage of its invasion of China touching any and all phases of violations of the rights and interests of this country and its nationals, and that this Government had not yielded one inch in asserting its rights or in controverting the opposing contention of the Japanese. I stated that our policy in the light of so many changing conditions had not been absolutely inflexible, and then added that there was not so much more that I could say to him except to draw attention to our policy and activities

⁴¹ Not printed.

⁴² *Infra*.

⁴³ September 15; see memorandum by the Secretary of State, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 15.

up to this date. I said that if anything further occurred to me, I would advise him. He concluded by saying that he understood our viewpoint and situation.

C[ORDELL] H[ULL]

893.0146/708

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom have been actively considering in conjunction with the French Government the communication made to their respective Ambassadors in Tokyo on September 5th by the Japanese Government offering the "friendly advice" that they should voluntarily withdraw their troops and warships from those regions of China which are under the control of the Japanese forces. In considering how best to reply to this proposal his Majesty's Government have naturally given full weight to the various communications on the subject made recently by the State Department to His Majesty's Embassy, and in particular they have taken special note of the tenor of the Secretary of State's communication to the Japanese Ambassador on September 8th [7th]. They are naturally anxious to take into account any considerations which the United States may think it right to raise.

Having regard to the grave situation with which they are now confronted in Europe, it is of the utmost importance for His Majesty's Government to consider how to avoid unnecessary friction in other parts of the world. If therefore His Majesty's Government were to view the matter solely in the lights of their own interests they would be disposed to inform the Japanese Government that, as is only natural, the question of the employment of the British forces elsewhere has for some time been under consideration; that it was very probable that it would be decided to withdraw the British garrison, at all events from Tientsin, in the near future; that the Japanese Government would be notified as soon as a final decision had been reached, and that in the meantime His Majesty's Government had taken note of the offer which the Japanese Government had made regarding the protection of British lives and property if and when the British forces were withdrawn.

If however the United States Government were disposed to adopt an attitude which, while primarily designed to safeguard United States interests in the Far East and to support the general policy of the United States towards China, would at the same time contribute to the common interests of our Governments, and if the United States Government felt that the withdrawal of the British garrisons would weaken the position which they wish to take up, then His

Majesty's Government would gladly reconsider the question in that light. But if His Majesty's Government are to proceed to such reconsideration of the problem they can only do so when they are in possession of the United States Government's views and have been informed of any concrete suggestions which the United States Government may have in mind as to the manner in which they themselves would propose that this firmer attitude should be maintained.

It is appreciated that the United States Government may well feel unable to formulate their views in this manner. On the other hand it must frankly be admitted that, while their general policy towards hostilities in the Far East remains unchanged, His Majesty's Government do not feel themselves able at present, with their existing resources, and in face of their present commitments to offer any resistance that could be counted on to defeat persistent Japanese pressure. This pressure may at any time increase and in existing circumstances His Majesty's Government feel that without some definite assurance of United States support it may well be better for them to withdraw without sacrifice of principle.

A further consideration to be borne in mind is that the question of the withdrawal from Tientsin may be raised in a new shape for practical reasons in view of the flooding of the Concession and the consequent necessity of rebuilding in the future. These considerations might necessitate withdrawal in any case and His Majesty's Government feel that it might be that the general situation would be eased if it were possible to make a virtue of what may indeed be a necessity. A decision to withdraw their troops would in the view of His Majesty's Government involve less of a blow to Western prestige in the Far East than that which would be inflicted were the troops compelled by force to submit to surrender and internment.

Meanwhile His Majesty's Government feel that the situation does not admit of indefinite delay and unless the United States Government feel able to put forward some concrete suggestions as indicated above, His Majesty's Government may have to consider the issue of early instructions for the withdrawal of His Majesty's garrison from North China.

If and when such instructions were issued it would be made clear to the Japanese Government that the removal of the British troops was undertaken on military grounds and should be regarded as temporary and in no way prejudicing the rights enjoyed by His Majesty's Government under the Treaty of Tientsin⁴⁴ and the Boxer Protocol.

The United States Government would of course be notified in advance of any decision by His Majesty's Government.

WASHINGTON, September 19, 1939.

⁴⁴ Signed June 26, 1858, *British and Foreign State Papers*, vol. XLVIII, p. 47.

893.0146/709

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 20, 1939.

The French Ambassador called at his own request. He said that he was familiar with the *aide-mémoire* presented to me on yesterday by the British Ambassador in regard to the question of Japan having invited the British to take their troops out of China. The Ambassador then said he was handing to me an *aide-mémoire* (translation attached)⁴⁵ of the same nature and purport as the British *aide-mémoire* on the same subject. I repeated to the Ambassador the substance of my last conversation with the Japanese Ambassador,⁴⁶ just as I repeated it to the British Ambassador on yesterday. There was nothing new or different in the two visits. The French Ambassador, in answer to questions, said that his Government had not seriously presented the matter to the Government of Japan but it was going along with the British. I said to him what I said to the British Ambassador apart from the contents of my conversations with the Japanese Ambassador; I need not repeat here these statements, which are contained in the memorandum of my conversation with the British Ambassador on yesterday.

C[ORDELL] H[ULL]

893.0146/709

The French Embassy to the Department of State[Translation⁴⁷]

AIDE-MÉMOIRE

The Government of the Republic has attentively examined, together with the British Government, the communication made, on September 5 last, to their Ambassadors at Tokyo by the Japanese Government, to give them the friendly advice to withdraw their troops and war vessels voluntarily from the regions of China which are under the control of the Japanese forces. In so doing, it did not fail to take into consideration also the information which it has received, through the Ambassador of the United States at Paris, of the communication made by the Secretary of State to the Ambassador of Japan on September 8th.⁴⁸

⁴⁵ *Infra.*⁴⁶ September 15; see memorandum by the Secretary of State, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 15.⁴⁷ File translation revised by the editors.⁴⁸ See memorandum by the Secretary of State, September 7, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 12.

In view of its obligation to concentrate its efforts in order to face the difficulties of the European situation, the French Government would be disposed, if it were to settle this question from the point of view of its interests alone, to inform the Japanese Government that the use of the French forces in other fields has been under study for some time, that the French garrisons will probably be withdrawn in the near future, at any rate from Tientsin, that the Japanese Government will be informed of the final decision as soon as it has been made and, that in the meantime, the French Government has taken note of the offers made by the Japanese Government concerning the protection of the persons and property of French citizens when the French forces have been withdrawn.

If, nevertheless, the United States Government should be disposed to adopt an attitude which, while essentially intended to safeguard its interests in the Far East, in accordance with its general policy with respect to China, would likewise take into consideration the common interest, and if the United States Government thought that the withdrawal of the French garrisons would weaken the position which it wishes to take, the Government of the Republic would be happy to reconsider the question from that angle. It could not do so, however, without knowing the views of the United States Government and without being informed of the concrete suggestions which the said Government may have in mind as to the manner of maintaining such firmer attitude.

The French Government, without desiring to change its general policy with respect to China, does not believe that it is in a position, in view of the resources at its command and the obligations which it must face, to offer a prolonged resistance to the Japanese pressure, if this should be increased. Accordingly, if it were not assured of finding some support from the United States, it would deem it preferable to withdraw without sacrificing principles. It would in that case have the intention of withdrawing its armed forces from North China within a short time. In doing so, it would notify the Japanese Government that such withdrawal is undertaken for military reasons and must be regarded as temporary and without any prejudice to the rights which the Government of the Republic possesses under existing treaties.

The Government of the Republic, of course, will not fail to advise the United States Government beforehand of its intention.

WASHINGTON, September 20, 1939.

893.0146/699 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 21, 1939—noon.
[Received September 24—10:10 a. m.]

508. Commandant of the Italian Guard at Peiping, which guard now numbers about 50 men, states that all but 10 or 12 of the guard will be transferred to the Italian Concession at Tientsin on or about October 1st. One officer will remain here with the 10 men. The British have a guard of approximately 100 men and the French approximately 110 men.

Repeated to Chungking; code text by airmail to Tokyo.

LOCKHART

893.00/14444 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 22, 1939—3 p. m.
[Received September 22—12:35 p. m.]

507. Shanghai's 839, September 20, 1 p. m.⁴⁹ Sotomatsu Kato, new Japanese Minister at Large who is visiting in Peiping for a few days, revealed in a personal and informal conversation yesterday his belief that he expects a new government to be inaugurated in Nanking, possibly on October 10. He expressed the view that Nanking would be the capital of the new government because it was more central than Peiping. I inferred that he believed also that Wang Ching Wei could command a stronger following at Nanking than in the north. Kato who is leaving for Hsinking tomorrow, thence to Japan, stated that he expects to be in Nanking about October 10 and that he will divide his time between Nanking and Shanghai.

Repeated to Chungking, Shanghai, Nanking. Code text by air mail to Tokyo.

LOCKHART

⁴⁹ Not printed.

893.51/6985 : Telegram

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

Moscow, September 22, 1939—6 p. m.

[Received 6:30 p. m.]

592. Department's telegram 112, August 2, 8 p. m.⁵⁰ The following information has been received in strict confidence from the source mentioned in Embassy's despatch 882, January 21, 1938⁵¹ and was provided with the request that every effort be made to safeguard not only the source and Moscow origin but the contents thereof.

Soviet assistance to China in equipment, material, nurses, supplies, since the beginning of the Japanese-Chinese conflict has in quantity been much more than that obtained from all other countries together and has been largely financed by long-term credits at low rates extended by the Soviet Union to China. Last June a credit of nearly 200,000,000 dollars was granted which brought the total of Soviet credits since the beginning of the conflict to 500,000,000 dollars. Approximately 1,000 aircraft consisting of S B bombers and pursuit planes have been delivered by the Soviet Union to China together with large quantities of arms especially light field pieces and machine guns. Approximately 2,000 Soviet pilots in rotation have been given combat practice with the Chinese air force.

The supplies with the exception of the [airplanes] which were flown in have gone by two routes (1st) through Sinkiang and (2) by ship from the Black Sea to South China especially Canton before its capture by the Japanese. These purchases have been arranged through special Chinese missions to Moscow particularly those headed by Sun Fo. Although the Soviet Government has consistently endeavored through promises of further and continuous supplies to have the Chinese Government immediately utilize the equipment and material thus delivered, the Chinese Government has been following a policy of building up appreciable reserves from these supplies and has resisted Soviet attempts to have the number of Russian pilots and technicians increased. The purpose of this policy of the Chinese Government has been and is to prevent at any time too great a dependence upon future supplies from the Soviet Union as the possibility has always been contemplated that this source might at any time be shut off. Up until recently the Soviet Government has discouraged without definitely opposing serious attempts on the part of the Chinese Government to seek its chief source of supply from other countries but 2 days ago upon inquiry here the Soviet Government

⁵⁰ Not printed; it requested information (893.51/6984).

⁵¹ Not printed.

intimated that there was now no objection to China seeking such assistance from England, France, or the United States although doubt was expressed whether supplies would be made available from those countries.

My informant outlined in detail and with apparent frankness the Chinese policy in regard to the Soviet Union. He stated that it has been the constant desire of the Chinese Government to avoid becoming too dependent upon Russia or to permit Russian influence in the Chinese Government and Army to become in any way dominant. He felt that in this the Chinese Government had been successful. He admitted, however, that his Government was distinctly concerned with the possibility of a *rapprochement* between Japan and the Soviet Union of which he considered the settlement of the Mongolian-Manchurian border dispute a first step although up to the present there had been no indication of any change in Soviet attitude toward China as a result of the Soviet-German treaty and the Soviet invasion of Poland and that supplies were still being regularly delivered.

My informant stated that Japanese overtures looking toward a peaceful settlement of the conflict with China had increased of late and attempts had been made to persuade the Chinese Government that the real enemy of China was not Japan but foreign powers enjoying special interests and particularly England and that Japan and China should cooperate in a policy of "Asia for the Asiatics". He added that while these overtures from Japan had found a response in certain Chinese governmental quarters nevertheless Chiang Kai Shek was of the opinion that time was on the side of China, that Japan had failed to conquer China and would seek increasingly to limit its operations in China and that consequently better terms of peace could be obtained at a later date possibly at the end of another 6 months or a year.

While it is of course impossible to check the accuracy of this information from any other source, I am inclined to believe that the statements in regard to Soviet aid to China are substantially correct and in this connection refer to Embassy's telegram No. 265, of October 14, 1937, 10 p. m.⁵² The purpose of these disclosures from a source which has heretofore been not only reticent but inclined to play down the extent of Soviet aid is I believe clearly due to concern at the possibility of a Soviet-Japanese *rapprochement* followed by a cessation of Soviet aid to China and the desire to ascertain the possibility of obtaining assistance from other countries, in particular the United States. It may well be that, despite the statement that there has been no change in Soviet attitude, my informant has received intimations that such a change is imminent.

STEINHARDT

⁵² Quoted in telegram No. 1458-1460, October 16, 1937, 10 p. m., from the Chargé in France, *Foreign Relations*, 1937, vol. III, p. 616.

793.94/15390: Telegram

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

CHUNGKING, September 23, 1939—9 a. m.

[Received September 23—6 a. m.]

537. Reference my 536, September 21, 1 p. m.⁵³ General Chu Shih Ming, Director of the Department of Intelligence and Publicity of the Foreign Office, informed Weil⁵⁴ yesterday afternoon that the Soviet Government had made no approach of any sort to the Chinese Government regarding a peaceful settlement of the Sino-Japanese conflict and that the Chinese Government had not asked the Soviet Government for a definition of its attitude following the Soviet invasion of Poland and the Nomonhan armistice. He said he had no reason to believe Soviet aid to China would not continue but expressed frank concern over the effect of the involvement of Britain, France and Russia in the European war on China's sources of war materials and financial assistance. He indicated that without outside help China could not hope to win the war and seemed to intimate that more than ever before China now looked to the United States for assistance.

A member of the staff of the Military Intelligence Division informed Weil yesterday afternoon that following receipt of news of the Nomonhan armistice, the Chinese Military Attaché at Moscow in response to a telegraphic inquiry from Chungking reported that he could discover no indication that Soviet aid to China would be cut off.

Rumors here to the effect that Russia is trying to settle the Sino-Japanese conflict through negotiation in order to have a free hand in Europe have increased in intensity as a result of publication of a Reuter's despatch on this subject carrying a Shanghai date line and a Transocean despatch under a Moscow date line—both released here within the last 2 days in the daily bulletins of these news services which are not subject to local censorship. The Foreign Office has reprimanded local representatives of both services for publishing these stories.

Repeated to Peiping, Shanghai, Hong Kong. Peiping please air mail to Tokyo.

JOHNSON

⁵³ Not printed.

⁵⁴ Thomas E. Weil, Third Secretary of Embassy in China.

893.0146/704 : Telegram

*The Ambassador in France (Bullitt) to the Secretary of State*PARIS, September 26, 1939—4 p. m.
[Received September 26—3:05 p. m.]

2179. My 1901, September 11, 1 p. m., and 1978, September 15, 1 p. m. Chauvel, Director of the Far Eastern Section of the Foreign Office, stated to me today that both the French Foreign Office and the British Ambassador in Washington had been opposed to the form in which the joint *démarche* of the French and British Ambassadors to you had been made. The British Foreign Office, however, had insisted on the question being put as it was put.

He added that Saint-Quentin had been instructed that insofar as the French Government was concerned a statement by you that you did not desire the French troops to leave Shanghai would be considered a sufficiently affirmative reply.

Chauvel went on to say that he had received so many apparently authoritative reports that [*about?*] secret negotiations between Chiang Kai Shek and Wang Ching Wei that in order to clarify the situation he had through an entirely unofficial intermediary caused the suggestion to be made to Chiang Kai Shek that he should come to terms with Wang Ching Wei and attempt to achieve peace with Japan through Wang Ching Wei.

Yesterday the Chinese Ambassador in Paris had called on him and had stated officially that Chiang Kai Shek would have nothing whatsoever to do with Wang Ching Wei and would continue to fight against the Japanese invaders.

He was left with the impression that while this might be Chiang Kai Shek's personal point of view Kung's point of view might be different.

Chauvel added that the continuation of resistance by Chiang Kai Shek would depend not only on his own will to resist but also on the Soviet Union's continued support of him and on the position which the ruler of Yunnan should take. It was by no means certain that Yunnan would not cooperate with a Wang Ching Wei Government and it was by no means certain that the Soviet Union would continue to support Chiang Kai Shek although Sun Fo recently had received Russian promises of further support.

In conclusion as an entirely personal view Chauvel expressed the opinion that the wars now in progress in Europe and Asia might bring about the most unexpected combinations. For example, if Germany should begin to be defeated by France and England and should seek refuge in becoming a Bolshevik state and admit the Red Army to German territory it might be in the interest of France and England to support Japan in an attack on the Soviet Union.

Under the circumstances the fact that Japan knew that Vladivostok would remain a constant threat to Japan so long as it should be in the hands of the Soviet Union constituted a basis for possible *rapprochement* with Japan. He wondered if it might not be very appropriate for Ambassador Grew on reaching Tokyo to take up the entire question of long term as well as short term relations between the United States, France, England, and Japan with a view to keeping doors open for future cooperation.

I desire to emphasize that these remarks were entirely personal in nature and were not an official communication from the French Government. Chauvel himself is entirely opposed to the withdrawal of French and British troops and ships from China and in making the remarks reported above was not speaking as a defeatist but merely looking toward long term possibilities.

Owing to the preoccupation of higher placed officials of the French Government with the situation in Europe, Chauvel's views with regard to the Far East are apt to control French policy.⁵⁵

BULLITT

793.94/15462

*The Vice Consul at Tsinan (Hawthorne) to the Ambassador in China (Johnson)*⁵⁶

No. 163

TSINAN, September 26, 1939.

SIR: I have the honor to report that, while Shantung has passed through many "dark ages", what with famine, pestilence, brigandage and internecine strife, never in recent years has this part of China been thrown into such utter chaos as obtains at present. For this state of affairs the promoters of the much-advertised "New Order in East Asia" must be held largely responsible as having brought about the collapse in many districts of the government machinery set up by the National Government of the Republic of China without having thus far placed in operation any efficient or satisfactory substitute therefor.

Banditry is rife and lawlessness the order of the day throughout the length and breadth of this consular district, except in the more important towns along the main channels of communication, and even in such places peace and order is more apparent than real. And with the human suffering and misery which may be expected this winter due to the poor harvests it is to be anticipated that conditions will grow worse rather than better.

⁵⁵ In its telegram No. 1109, September 29, 6 p. m., to the Ambassador in France, the Department quoted from its telegram No. 267, August 30, noon, to the Chargé in Japan, p. 59, and indicated that its attitude was unchanged.

⁵⁶ Copy transmitted to the Department without covering despatch; received November 2.

An American medical missionary stationed at Ichowfu (Lini), in southern Shantung, wrote the Consulate on September 18, 1939, that

"Conditions within a mile rather make me hesitate to go out. In the twenty six years I have been here I have never known conditions to be as bad as at present. So far as I know there is no attempt at control. One patient in coming twelve li to the hospital was stopped three times by as many different gangs. Many are shot by automatics. As I have removed a good many bullets I know what is being used."

This brief description of conditions in the Ichowfu area is typical of the reports being received in Tsinan concerning the disorder prevailing in other sections of this consular district.

Respectfully yours,

CARL O. HAWTHORNE

893.0146/723

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] September 27, 1939.

The French Ambassador called this afternoon and began the conversation with an inquiry: he supposed that I had seen the *aide-mémoire* which he had given the Secretary of State⁵⁷ on the subject of the armed forces in China; was I in position to tell him what was our reaction. He said that he understood that the British Embassy had given us an *aide-mémoire*⁵⁸ similar to that given by his Embassy.

I replied that I had seen both *aide-mémoire*, that this Government's reply was ready, and that I was authorized to hand him an *aide-mémoire*⁵⁹ in reply to his *aide-mémoire*.

While the Ambassador was reading our *aide-mémoire*, I pointed out that the substance of our reply was that this Government does not expect to withdraw its forces from the points in China at which they are now stationed. I said that this statement of our position was in terms of expectation, that it represents a position taken in the light of existing circumstances, and that it does not constitute a commitment but will be subject to review from time to time as the situation develops. The Ambassador ejaculated that he well understood that we could not and would not make a commitment; he said that he had told his Government just that and that he had advised against their asking us to do anything of that sort. He indicated that he regarded the contents of our *aide-mémoire* as an adequate and satisfactory reply. In fact, he seemed greatly pleased with our statement that we do not expect to withdraw our forces from the points where they

⁵⁷ Dated September 20, p. 258.

⁵⁸ Dated September 19, p. 257.

⁵⁹ *Infra*.

now are. He said that his Government does not want to make withdrawals, but that the British Government inclines toward withdrawal, and that both the French and the British Governments are presented with difficult problems. I commented only to the effect that we well realize that such is the case, and I added the observation that practically all governments and peoples are today confronted with problems of extraordinary difficulty.

There followed a brief discussion of summer holidays and the present tense situation in Europe.

STANLEY K. HORNBECK

893.0146/709

The Department of State to the French Embassy

AIDE-MÉMOIRE

Reference is made to the French Embassy's *aide-mémoire* of September 20, 1939, wherein it is stated that the French Government has attentively examined, together with the British Government, the "friendly advice" offered by the Japanese Government that the French and British Governments should voluntarily withdraw their troops and war vessels from the regions of China which are under the control of the Japanese forces and wherein there is set forth the position which the French Government inclines toward taking, especially with reference to French armed forces in north China.

The general attitude and position of the Government of the United States in regard to this Government's armed forces in China and to the situation created by the "friendly advice" offered by the Japanese Government have recently been made known to the French Government. That attitude and position remain unchanged.

Note has been taken of the statement contained in the French Embassy's *aide-mémoire* of September 20 that the French Government has not failed to take into consideration the views expressed by this Government.

Having considered carefully the various factors in the existing situation, the Government of the United States has come to the conclusion that the armed forces of this country now maintained in China should remain there and this Government therefore does not expect to withdraw its forces from the points at which they are now stationed.

It is noted that the French Government plans to notify this Government in advance of any decision which may be arrived at by the French Government. This Government would likewise expect, as in the past, similarly to notify the French Government of any change in this Government's position.

WASHINGTON, September 27, 1939.

893.0146/724

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] September 27, 1939.

The British Ambassador called this afternoon and I handed him the *aide-mémoire* which constitutes this Government's reply⁶⁰ to the British Embassy's *aide-mémoire* of September 19 on the subject of the armed forces in China. I pointed out that the substance of our reply is in the paragraph in which we state that "this Government therefore does not expect to withdraw its forces from the points at which they are now stationed." I stated that this is a statement of our position in terms of expectation and that it represents a position taken in the light of existing circumstances, that it does not constitute a commitment, and that, as the situation develops, we would expect from time to time to review and reconsider our position.

Lord Lothian asked whether he might ask two questions: first, have we any reason to believe that the Japanese and the Chinese are likely in the near future to make peace; second, in the event of British and French withdrawal of their forces from north China, would we remain. He gave some account of indications which caused him to raise the first of these two questions. I replied that we have no evidence which indicates to us that the Chinese are prepared to make peace on the terms to which he referred: namely, an agreement which would give the Japanese a preferred position in north China together with maintenance there by them of armed forces. I said that the Japanese are at present concentrating, apparently, on two things: first, effort to set up a central puppet government, at Nanking; second, a new military drive against Chinese armed forces at certain points, especially around Changsha. I said that I have doubt whether the Japanese will have succeeded in setting up the puppet government which they envisage by October 10 or even by November 15, and that, therefore, all that we can do in connection with that matter is to maintain an attitude of watchful waiting. Lord Lothian asked whether we thought that the Japanese would be able to wipe out Chiang Kai-shek. I replied that they are constantly trying to do that by dropping bombs, but that in our opinion it would be a long time before they could wipe him out by political pressures. There followed some discussion of the effects in the Far East of the Russian-German agreement and of action taken by the American Government. I pointed out that of late the Japanese abuse of British and of American nationals and interests seems to have relaxed and that, in connection with such matters as Shanghai, the Japanese are now pro-

⁶⁰ *Infra.*

posing revision of the defense plan and they are not saying anything about throwing anybody into the Whangpoo River. Lord Lothian said that the Secretary of State had told him of his conversations with the Japanese Ambassador and that the British Government's solicitude had been that we should use our moral influence, as the account of these conversations indicated that we had done.

I then said that, in reply to Lord Lothian's second question, the answer is given in the *aide-mémoire* of today. I said that we had considered many angles, including the possibility of British and French withdrawals, and had arrived at the conclusion that we would leave our forces where they are.

Lord Lothian inquired whether we were giving the same reply to the French that we had given to him. I replied that I had handed a similar *aide-mémoire* to the French Ambassador an hour previously,⁶¹ the French Ambassador having chosen to call at an hour earlier than that chosen by Lord Lothian.

I read to Lord Lothian, as an oral statement, an informal memorandum with regard to the armed forces, of which a copy is here attached.⁶² Lord Lothian began to read to me from a memorandum which he had in his hand a statement with regard to "battalions" and "companies". I interrupted with the statement that I would ask of him, as I had on earlier occasions asked of Sir Ronald Lindsay, that we be given figures instead of statements about military units—for the reason that these armed forces are small in numbers and the terms "regiment", "battalion", etc., have no meaning for purposes of comparison, as both the full strength and the actual strength of such units in different organizations and at different moments vary. I added that we already have the figures, as indicated in the memorandum which I had read, but that we would be glad to have confirmation in terms of British figures. Lord Lothian said that he would ask for figures.⁶³

At one point in the conversation, Lord Lothian said that he had been informed that a prominent Japanese who is now in this country has stated that he is going to Japan and intends to say to his Government that Japan is in no position to carry out objectives of conquest in China, that Japan cannot exploit the resources of China without financial assistance from Great Britain and the United States, that Japan should liquidate the China hostilities and should cease to irritate the British and the Americans and should make peace with China and cultivate friendly relations with those countries. Lord Lothian wanted to know whether I had heard of this. I said that I had not.

⁶¹ *Supra.*

⁶² *Post*, p. 271.

⁶³ These were duly submitted; not printed.

The conversation then turned to the situation in Europe. It became apparent that we were in agreement that any one of several things might happen and any one of the same and other things might not happen.

At no point in the conversation did Lord Lothian make any request for indication of our views as to what the British or the French Governments should do with their armed forces in China or as to what policy we would pursue except as indicated above; and at no point did I say anything on those subjects.

STANLEY K. HORNBECK

893.0146/708

The Department of State to the British Embassy

AIDE-MÉMOIRE

Reference is made to the British Embassy's *aide-mémoire* of September 19, 1939, wherein it is stated that the British Government has been actively considering in conjunction with the French Government the "friendly advice" offered by the Japanese Government that the British and French Governments should voluntarily withdraw their troops and warships from those regions of China which are under the control of the Japanese forces and wherein there is set forth the position which the British Government inclines toward taking, especially with reference to British armed forces at Tientsin.

The general attitude and position of the Government of the United States in regard to this Government's armed forces in China and to the situation created by the "friendly advice" offered by the Japanese Government have been set forth in a number of recent communications, both written and oral, from this Government to the British Government. That attitude and position remain unchanged.

Note has been taken of the statement contained in the British Embassy's *aide-mémoire* of September 19 that the British Government has given full weight to the various communications from this Government.

Having considered carefully the various factors in the existing situation, the Government of the United States has come to the conclusion that the armed forces of this country now maintained in China should remain there and this Government therefore does not expect to withdraw its forces from the points at which they are now stationed.

It is noted that the British Government plans to notify this Government in advance of any decision which may be arrived at by the British Government. This Government would likewise expect, as in the past, similarly to notify the British Government of any change in this Government's position.

WASHINGTON, September 27, 1939.

893.00146/724

*Statement by the Department of State*⁶⁴

The U. S. expects not to withdraw its landed armed forces from the points at which they are now stationed.

We note that as of August 4 the British force at Tientsin numbered 494 and at Peiping 216. At that time the U. S. force at Tientsin numbered 226 and at Peiping 344. It appears that subsequently the British have reduced their force at Peiping by about 100 and that the French have done likewise. We assume that these removals from Peiping have been made for purposes of reinforcement at Tientsin. Also, this indicates to us that the British and the French Governments have thus far felt, as we continue to feel, that there are good reasons for keeping the flag flying at Peiping even though the number of men there be reduced.

It appears that the Italians have been making shifts of personnel from Peiping to Tientsin.

711.94/1308: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 28, 1939—6 p. m.
[Received September 28—9:34 a. m.]

495. 1. The Minister for Foreign Affairs⁶⁵ this afternoon received in turn the Chiefs of Mission. He greeted me very cordially as we are friends of long standing. He said that he looked forward eagerly to seeing Mr. Grew as soon as possible after the Ambassador's arrival in order to explore ways and means of restoring good relations.

2. The Foreign Minister regretted that he had not the time today to discuss American-Japanese relations at length but he wished to emphasize one point—that he could be counted on to do his best to prevent the war in Europe from spreading to the Pacific Ocean. It was dangerous to be too complacent, as an example of the results of such complacency is the conflict with China, into which Japan was unexpectedly drawn. He firmly believed that the United States and Japan owed it to humanity as well as to themselves to maintain peace in the Pacific. I stressed briefly that the necessary first step toward restoring good relations must be suppression of Japanese actions in China injurious to American nationals and interests which arouse resentment in the United States.

Repeated to Shanghai. Shanghai please repeat to Chungking and Peiping.

DOOMAN

⁶⁴ Copy handed to the British Ambassador on September 27 by the Adviser on Political Relations (Hornbeck).

⁶⁵ Admiral Kichisaburo Nomura.

893.0146/706 : Telegram

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

PARIS, September 30, 1939—7 p. m.
[Received September 30—3:30 p. m.]

2263. I communicated to Leger today the substance of your 1105, September 29, 4 p. m.⁶⁶

Leger had already received the same information from the French Ambassador in Washington. He stated that the position taken by the Government of the United States was not sufficiently affirmative to enable the French and British Governments to base their policy upon it. All French and British gunboats and troops therefore would be withdrawn from all areas in China, including Shanghai, immediately.

He went on to say that this decision has been delayed only because it was hoped that affirmative support from the Government of the United States might be forthcoming but that the communication which had been made to Saint-Quentin and Lothian had decided the French and British Governments to withdraw at once in order to avoid immediate conflict with the Japanese.

I also expressed the views contained in your 1109, September 29, 6 p. m.⁶⁷ to Leger. He said that he believed that our Government was much too optimistic with regard to the attitude of Japan. He believed that the moment that a German attack should be launched against France, Japan would drive the French and British completely from the Far East. He knew that the Japanese were engaged in serious conversation with Germany and the Soviet Union. He thought that our policy of waiting for an evolution in Japan would be another case of waiting by the Democracies while the Dictatorships acted.

BULLITT

793.94/15531

The Consul at Hanoi (Reed) to the Secretary of State

No. 2

HANOI, October 3, 1939.
[Received December 6.]

SIR: I have the honor to refer to the Department's telegraphic instruction to the Embassy at Peiping,⁶⁸ assigning me as consul at Saigon but directing that I proceed to Hanoi and Haiphong for the purpose of carrying out the functions set forth in Ambassador Johnson's tele-

⁶⁶ This telegram reported exchange of views with French and British Embassies (893.0146/705a).

⁶⁷ See footnote 55, p. 265.

⁶⁸ Telegram No. 143, July 20, 7 p. m., not printed.

gram to the Department, No. 393, June 17, 11 a. m.^{68a} In pursuance therewith I proceeded to Hanoi from Saigon, where I arrived the morning of September 13, arriving at Hanoi the afternoon of September 16.

Since my arrival at Hanoi I have called upon and have established friendly relations with the majority of the French officials in this city, particular effort being made to cultivate those officials whose decisions and ideas have a peculiar bearing upon the situation in China and upon the progress of the Sino-Japanese conflict. I have made summaries of my various conversations with these officials but, as much of the material set forth in these memoranda is repetitious, I submit herewith an outline of the matters discussed.

My conversation with the Governor General, General Georges Catroux, was especially interesting and covered a wide range of subjects. The Governor General expressed the opinion that the outbreak of war in Europe would alter to a large extent the conditions prevailing in Indochina. Insofar as French-American relations are concerned, it will be necessary to rely upon importations from the United States, cars and trucks, and other essentials, which can no longer be supplied by France. He added that every facility will be given to American interests in Indochina. Insofar as French-Chinese relations are concerned, it will be necessary to review these in detail and to make such changes as are called for by the altered conditions in Europe. He explained that France is generally sympathetic to the Chinese cause, although the Chinese have not shown a reciprocal understanding of French desires, but that France can not afford to jeopardize Indochina and will accordingly follow a policy of purely political expediency. He referred openly to the danger of Japanese aggression, from bases at Hainan and on the Spratley Islands, and stated that this possibility is a factor which enters into the question of the establishment of a new policy towards Chinese affairs. In any event, he concluded, his personal opinion was that the Sino-Japanese conflict will be liquidated in the not too distant future.

As a matter of fact, the majority of French officials in Indochina have expressed the same opinion regarding the future course of events in China, commenting that the outbreak of war in Europe will so alter the policies of the countries at war as to lead ultimately to a liquidation of the Sino-Japanese conflict. The majority, including the Governor General, remarked that this settlement of Far Eastern affairs will solve a number of very embarrassing problems, such as the transit of goods to China, and will remove an actively apprehended danger to Indochina. All officials (and among these I may mention the Secretary General of the Government General, the Director of the

^{68a} Not printed.

Political Section, the Director of the Economic Section, the Director of Customs and Monopolies, et cetera) commented that the transit of goods to China is the subject of Japanese suspicion and that the unprecedented accumulation of cargo at the port of Haiphong does nothing to dispel this suspicion. Consequently, some limitations must be placed upon this transit of goods in order to remove this accumulation and to remove at least a modicum of Japanese suspicion. The Director of the Economic Section of the Government General, Mr. Louis Marty, was especially categorical in blaming the Chinese for the confused situation at Haiphong and thus attracting Japanese attention.

That the French are extremely apprehensive of Japanese action in this region, particularly since the outbreak of the war in Europe, is evidenced in part by the entrenchments and bombproof shelters constructed in all parks and public places, and in even private gardens. At Dason, a seaside resort near Haiphong, and at other seaside places, a large number of French have vacated their houses, in fear of Japanese bombings. This apprehension, and a measure of exasperation with the Chinese, explains the possible wishful thinking that the Sino-Japanese conflict will soon be liquidated.

French officials, especially the Director of the Political Section, Mr. Mantovani, do not consider Governor Lung Yun of Yunnan a particularly faithful ally of the National Government. Instances were cited purporting to show that the Lung Yun regime is paying enforced lip service to the National Government, but with independent ideas as to what should and should not be done, particularly as regards financial matters. Mr. Mantovani opined that a revival of the Southwestern faction, including Yunnan, is not a too far-fetched possibility. I have been told that Indochina would view with pleasure the establishment of a buffer state comprising Kwangtung, Kwangsi and Yunnan. Mr. Mantovani stated his belief that emissaries of Wang Ching-wei are still endeavoring to wean Yunnan from the side of the National Government. In general, however, French officials tend to discount the influence of Wang Ching-wei, either in Yunnan or elsewhere.

Both the Governor General and the Secretary General, Mr. Delsalle, mentioned the projected new Central Government to be organized by Wang Ching-wei and queried whether this would have any effect upon the course of events in China. In fact there was some doubt if this government would be inaugurated. Similarly, the Russo-Japanese truce was the subject of comment—it being doubted that either side could place any great reliance or confidence in the truce.

Conversations with non-official persons conversant with the situation in Indochina both before and after the outbreak of war in Europe confirm the impression I received during my conversations with various officials at Hanoi—that before the war the French were inclined

to let things go as in the past, with only a remote apprehension of political difficulties in the Far East; that subsequent to the outbreak of war the French have instituted or are instituting such measures (directly affecting China) which will ensure the minimum of danger to France in the Far East. There is no question, however, but that the French are still reasonably sympathetic towards the Chinese and, if assistance can be rendered to China without protest from the Japanese, the French will continue to render such assistance.

It is true that the French are somewhat annoyed with the Chinese on account of the Chinese embargo on imports into China of certain commodities (luxuries, et cetera). And I have heard, but this has not been confirmed, that the French undertook a measure of retaliation, particularly in regard to port dues of various types and other matters which were a matter of discretion. But France may not now be in a position to export these commodities to China. In this matter, as in others, the fact that France is at war and is preparing for a war of possible long duration completely alters the picture and ensures that the French policy, especially in the Far East, will be one of understandable self-interest and political expediency.

Respectfully yours,

CHARLES S. REED, II

393.1164/300

The Adviser on Political Relations (Hornbeck) to the Director of the Christian Medical Council for Overseas Work, New York (Edward H. Hume, M. D.)

WASHINGTON, October 5, 1939.

DEAR DR. HUME: I have your letter of September 29 on the subject of the safety of the property of Yale-in-China at Changsha and the enclosure thereto, a copy of your letter of the same date to the Chinese Ambassador.⁶⁹

With regard to the question of the safety of Yale-in-China at Changsha, I am pleased to inform you that upon the receipt of Dr. Lobenstine's letter dated September 27, 1939,⁷⁰ the Department instructed, by telegraph, the American Embassy at Peiping and the American Consulate General at Hankow to remind the appropriate Japanese authorities of the location of all known American properties at Changsha, including the properties of Yale-in-China. It is believed that full information in regard to the properties in question is in the hands of the Japanese authorities and our records indicate that a map of those properties was furnished the Japanese authorities in China on September 1, 1938.

⁶⁹ Neither printed.

⁷⁰ Not printed; Edwin C. Lobenstine was president of the Yale-in-China Association.

In regard to your letter to the Chinese Ambassador, in the course of which you indicate that you are seeking an indication of my views with regard to the subject matter: You are suggesting to Hu Shih that a group of American private citizens might study the possibility of peace negotiations between China and Japan with a view to laying before him recommendations on which he might act officially. Your reference of the matter to me calls for and warrants, I believe, a frank expression of opinion on my part. Without going into the merits of the political objectives which you outline, may I say that I frankly doubt the desirability of activities at this time which might tend to involve private American citizens in the official affairs of not only one but several foreign governments. The issues to which you refer are of large international import, and the factors involved are many and complex. It has been our observation that participation by private citizens in deliberations on high governmental policies by officials of foreign governments has more often than otherwise had unfortunate results. We, not unnaturally, I am sure you will agree, feel that it is our first duty and the first duty of every American citizen to think and to act first of all toward safeguarding and promoting the real interests of the United States. That being the case, we feel that, if for no better reason than that of avoiding the crossing of wires, the best course that can be pursued by American citizens who feel inclined to make suggestions to officials of foreign governments on matters of high policy is first to confer with us toward ascertaining our views as to the practicability of so proceeding. We have no objection to your following the course which you have in mind, but, very frankly speaking, I have great doubt whether you would be likely to achieve anything constructive by doing that at this time.

With cordial regards [etc.]

STANLEY K. HORNBECK

793.94/15447

Memorandum by Mr. Joseph M. Jones, of the Division of Far Eastern Affairs

[WASHINGTON,] October 6, 1939.

So far as economics are concerned, Japan's new order in East Asia means economic sufficiency within an area under Japanese control. The Japanese have, for many years, regarded their dependence for materials vital to the carrying on of a war (iron, petroleum, and so forth) upon remote foreign areas not under their control as the weakest point in their armor and have devoted their principal energies to reinforcing it. Japan now actively seeks in China a source for raw materials which she requires and a market for her goods which cannot be cut off by foreign countries.

In making her present effort to develop in China a source of her materials and a market for her products, Japan has to a considerable degree burned her bridges behind her. It is generally recognized in Japan and throughout the world that Japan's principal economic asset is an abundance of cheap labor and that the present economic strength of Japan (aside from silk culture) has been built upon the exploitation of that labor, e. g., in importing raw materials and manufacturing products for export. Japanese industry has concentrated hitherto principally upon light industries, that is, industries manufacturing consumption goods. Witness the wide range of Japanese industries producing consumption goods for exportation (textiles, toys, pottery, rubber goods). It appears now, however, to be an essential part of the plan of the Japanese military authorities to convert Japan within a very brief period of time into a country producing heavy industrial products, such as iron and steel and manufactures thereof, heavy chemicals, et cetera. Since the beginning of the hostilities with China, the Japanese Government has deliberately concentrated capital and energy upon an expansion of heavy industries. There has thus occurred a marked shift in Japan's industrial set-up. Meanwhile, Japan's light industries have because of lack of capital and lack of raw materials declined both in absolute and relative importance in the Japanese economy. Japan's heavy industry is at present, of course, engaged principally in manufacturing materials and instruments of war. It appears to be the plan of the Japanese military authorities, once the present hostilities are ended, to direct the production of Japan's present heavy industries from war products to peacetime products and to create a market for those products in China.

What has been the procedure which Japan has followed in establishing her new economic order in East Asia? (1) As the Japanese troops have advanced in China they have taken possession of all Chinese national, provincial, and municipal enterprises. These public enterprises consist principally of railways, electric power companies, salt fields, water works, navigation facilities, and certain iron and coal mines. (It must be pointed out that these enterprises are taken over free of debt, both local and foreign debts (if any) being repudiated.) (2) Japanese troops have also occupied practically all privately-owned Chinese industries of substantial size (cotton and woolen mills, flour mills, chemical plants, cement factories, privately-owned iron and coal mines, and so forth). (3) At the same time the Japanese troops have confiscated or purchased at arbitrary rates with questionable currency available stocks of raw materials (cotton, wool, hides and skins) and have instituted Japanese purchasing monopolies.

Privately-owned Chinese enterprises which were seized by the Japanese have in general (with the exception of certain privately-owned coal and iron mines) become "Sino-Japanese enterprises". The usual procedure which has been followed in the organization of these enterprises is as follows: While Japanese forces are in occupation of the properties, either individual Japanese or groups of Japanese engaged in similar enterprises in Japan "persuade" the Chinese owners to "invest" their plant and properties in a new company. The capitalization of the new company is expanded, the Japanese taking the controlling share. The Japanese interests may or may not furnish new operating capital but they usually assume management of the new enterprise.

With respect to public enterprises seized (including the privately-owned coal and iron mines) there is a great disparity between the Japanese plans and actual facts. During the fall of 1938 the Japanese organized two large official development companies, the North China Development Company and the Central China Promotion Company, each with a large capital stock and each controlled by the Japanese Government. It appears to be the plan of the Japanese to reorganize and reshuffle Chinese public enterprises into industry groups dominated from a managerial standpoint by similar industry groups in Japan but controlled effectively, by reason of stock ownership, by one of the two official development companies. For nearly two years now the press in the Far East has been filled with Japanese plans for the organization of these new companies, the details as to capitalization and the position of the new companies in Japan's "new order" being supplied. The fact is that as late as August 1939 only two of the proposed subsidiaries of the North China Development Company are believed to have been organized: the North China Telephone and Telegraph Company and the North China Transportation Company. Obviously, reconstruction of communications was essential to military operations and was given priority. The transportation company is still more or less of a fiction as far as the railways are concerned, however, for the railways of north China are under the effective management of personnel of the South Manchuria Railway. Subsidiaries of the transportation company—the North China Automobile Company and the Menchiang Automobile Company—control automobile and truck transportation in north China and Inner Mongolia respectively, and another subsidiary is projected to control transportation of inland waterways. Those in charge of railway transportation have positive achievements to their credit: They have repaired and restored to operation the Chinese railways which had fallen into Japanese hands.

Numerous other projects are planned as subsidiaries of the North China Development Company: The North China Salt Industry Com-

pany is projected to exploit the north China salt fields; a clay mining company is proposed; seven new companies are projected to exploit coal mines in seven districts of north China; a new electric power and electric light company is projected with a large capital to take over the management of the various electric power and distribution facilities in north China; a new mining company is projected to develop the Lungyen iron mines and an iron manufacturing company to operate the iron works at Shihchingshan and Taiyuan. Japanese plans for the organization of these companies have been retarded by various factors, chief among which are absence of decision as to the ultimate policy to be pursued, lack of coordination between the various agencies involved in Japan and China, and failure to establish peace and order throughout the occupied regions. Meanwhile, the plants and properties which have been seized are being occupied and worked by such Japanese interests as are able to persuade the military authorities to entrust them with their exploitation.

The Central China Promotion Company is projected on a smaller scale. At the time of its organization, the Company was slated to control the following subsidiaries which were planned at that time:

Central China Iron Mining Company (to exploit the iron mines in the Yangtze valley, particularly the iron mines near Wuhu)

Central China Water and Power Company (to control all electric power plants and waterworks in central China)

Central China Telecommunications Company (to operate the telephone, telegraph and radio services)

Central China Fishing Company (to control the marine products industry)

Central China Bus Company

The Shanghai Inland Steam Navigation Company

The Shanghai Real Estate Company (to take over confiscated real estate)

Whether these subsidiaries have in fact been organized is not known, but it is probable that most of them have been brought into existence in as much as they involve principally the taking over of existing facilities and their operation under monopoly conditions. Another subsidiary, the Central China Sericultural Company, has been organized with the object of exercising a monopoly control over the production and trade in raw silk.

With equal thoroughness, Japanese have set about monopolizing the products of China's agriculture—cotton, wool, silks, hides and skins and tobacco. In as much as Japanese troops are in control of most of the lines of communication in north and central China, and as agricultural products originate in the interior and congregate at various points along the communication routes, the Japanese military forces have been in a strategic position to exercise monopoly control. Competing buyers have simply not been allowed in the agricultural

districts, except with the permission of the military authorities, and transportation facilities have not been allowed except for those products which the Japanese have desired to ship. In fact, therefore, the Japanese military authorities in north China have established purchasing monopolies for cotton, wool and hides and skins. In addition, the Provisional régime at Peiping bolsters the monopoly control by issuing from time to time embargoes upon exportation, decrees providing for export permits, et cetera.

Before leaving the subject of Japan's efforts in the economic field to create a "new order" in East Asia, mention should be made of the rehabilitation work done by the Provisional régime in Peiping. Substantial amounts of money have been spent upon improving highways and waterways. Mention should also be made of the fact that the Japanese cotton mills at Tsingtao, which were destroyed by the Chinese, have been rebuilt. Further, Japanese interests have completed in Tientsin various factories, including an electric power plant, which were either planned or under construction at the beginning of the hostilities.

It is clear from the foregoing that although Japanese plans far outrun the facts, the Japanese have acquired a strong hold upon economic life in those areas of China which they have seized. But the interesting and important question is, how much is Japan's economic strength and security augmented by the conquests which have been made? Let us leave aside for the moment the huge and continuing cost of the conquest to Japan in blood and money and concentrate on the assets with a view to their evaluation. We must at once rule out as assets all of those enterprises which are merely engaged in reconstructing war losses in China and all of those service and manufacturing industries in which Chinese management has simply been replaced by Japanese management. Those enterprises may furnish certain Japanese with outlets for their energies and perhaps with financial dividends which will give them a more abundant life in Japan, but they do not add appreciably to the economic strength of Japan. A critical examination of the various Japanese undertakings in the occupied portions of China discloses that basically the only Japanese activities in China which contribute to Japan's economic strength are those which furnish needed raw materials to Japan's industries.

What are Japan's raw material needs? Clearly the most vital are iron, cotton, coal, petroleum, copper, wool, rubber, wood pulp, and others of lesser importance. China cannot, of course, supply to Japan petroleum, copper, rubber, wood pulp or even appreciable quantities of wool (China's export wool is almost wholly carpet wool and Japan requires clothing wool). The question of the usefulness of China's

resources to Japan then revolves chiefly about iron, cotton, and coal (and the least important of these is coal, in view of the large production in Japan and Manchuria). To what extent is Japan at present obtaining increased supplies of these commodities in China?

The greatest benefit which Japan has thus far derived from China is probably increased supplies of coal. During the first five months of 1939 Japan's imports of coal from China amounted to 805,000 long tons of coal as compared with 610,000 tons during the same period in 1938, and 531,000 tons in the same period of 1937. However, it is notable that shipments of coal from Manchuria to Japan decreased from 1,064,000 long tons during the first five months of 1937 to 504,000 tons during the same period in 1938, and 299,000 tons in 1939. It appears that the industrial expansion programs in Japan and Manchuria are outrunning coal production and apparently coal imports from China at present are not even large enough to offset decreases in imports from Manchuria. Meanwhile, it has been recently reported that industrial production in Japan is being seriously interfered with by shortage in electric power. Coal is being rationed there even among large industrial plants. Nevertheless, China does possess important coal resources and these are being developed by the Japanese.

It appears probable that Japan will eventually satisfy an important part of her coal requirements in China although at the present time such is not the case. As a matter of fact a very large proportion, if not all, of Japan's increased imports from China consist of increased supplies from the British-controlled Kailan mines.

It is predicted that cotton production in China during the present season will be smaller than in many years. During the 1936-1937 season production amounted to 3,870,000 bales; in 1937-1938, 3,556,000 bales; in 1938-1939, 2,300,000 bales; and production during the current season is estimated less than 1,900,000 bales. Imports of raw cotton into Japan from China during the period September-July 1936-1937 amounted to 195,000 bales; during the same period in 1937-1938, 319,000 bales; and during the same period in 1938-1939 only 65,000 bales. The foregoing pictures give an adequate answer to the question whether Japan is at the present time or may be expected in the near future to obtain increased supplies of cotton in China. The reasons for the sharp decline in cotton production are, of course, the failure of the Japanese to pacify the countryside, guerrilla warfare, and droughts and floods.

With respect to iron, although no statistics of Japan's imports are available, it is exceedingly doubtful that the amount of iron Japan is now receiving from China approaches her pre-war imports from that country. The bulk of Japan's pre-war imports of iron from China came from the Tayeh Iron Mines near Hankow, which were

destroyed by the Chinese before their retreat from that region. These mines are being repaired but they are not yet in operation. Japan is apparently pinning great hopes upon the Lungyen Iron Mines located in South Chahar, which were seized intact by the Japanese. According to the most recent report on the subject from Peiping, the daily output of the Lungyen Mines has been restored to 600 tons, most of which is being smelted in the iron foundries at Shihchingshan near Peiping. This daily production is equivalent to about 220,000 tons per year, which is only a fraction of Japan's pre-war imports of iron from China (of about 1,200,000 tons). Furthermore, it appears that production in the Lungyen Mines cannot be further developed without large capital investment in machinery and in railway facilities.

893.0146/706 : Telegram

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

WASHINGTON, October 6, 1939—9 p. m.

1180. Your 2263, September 30, 7 p. m., last paragraph, second and last sentences. It was not intended to imply in the Department's 1109, September 29, 6 p. m.,⁷¹ that the Department entertains any feeling of confident optimism with regard to the attitude of Japan. We do not know precisely what Leger or Chauvel had in mind in their remarks to you, but it may not be inappropriate to observe that so far as this Government is concerned we continue to believe that whatever action we may take must be consistent with our traditional policies. We would perceive no advantage but rather considerable disadvantage in the adoption of any policy or the taking of any action which would involve any waiver or signing away in Japan's favor of existing rights. We see no reason for assuming at this time that the conflict in China has been resolved or is sure to be resolved in Japan's favor; and we see ample reason for refraining from action or steps based on any such assumption.

HULL

893.0146/713 : Telegram

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

PARIS, October 9, 1939—5 p. m.

[Received October 9—3:05 p. m.]

2391. I communicated the substance of your 1180, October 6, 9 p. m. and your 1184, October 6, 12 midnight,⁷² to Chauvel today.

⁷¹ See footnote 55, p. 265.

⁷² Latter not printed; it quoted telegram No. 507, October 6, 6 p. m., from the Chargé in Japan, p. 74.

He was most grateful and stated that while there had been no change in the basic decision of the French and British Governments to withdraw their forces from China very careful orders had just been given that the withdrawal of these forces should be held in suspense for the present.

He stated that before the decision to hold withdrawal in suspense had been decided upon orders had been issued to withdraw 5 of the 10 British gunboats and 2 of the 4 French gunboats.

A few officers and men also might be withdrawn but for the present at least the decision to withdraw completely would not be carried out.

Chauvel went on to say that he personally had always opposed withdrawal and he was most happy about this suspension of withdrawal.

His own opinion with regard to the situation in the Far East was in line with the opinion you expressed in your 1180, October 6, 9 p. m.

The French Government had just received authoritative information from Chungking that the German Government had proposed to Chiang Kai Shek that Germany should attempt to bring about peace between China and Japan on the basis of a withdrawal of Japanese troops from all portions of China, except Manchuria; a recognition by China of the "independence" of Manchukuo, an increase in the Japanese zone at Shanghai and an economic and financial agreement between China and Japan. This proposal had been discussed by Chiang Kai Shek with his Chinese military advisers and the decision had been made to reject it flatly.

The French Government believed that this indicated that Chiang Kai Shek still felt that he had sufficient weapons in hand [to] continue his fight against foreign power.

Furthermore the French Government had information that seemed credible to the effect that the Chinese air force—that is to say the Soviet fliers in China—had recently recommenced their activities on a fairly large scale. This seemed to indicate that the Soviet Union intended to continue to support China against Japan.

Moreover the French Government had information from both Moscow and Tokyo which indicated that in spite appearances to the contrary neither the Russians nor the Japanese had confidence in the settlement with regard to the borders of Manchuria and Mongolia⁷³ and that both sides were reinforcing their forces in those regions.

Under the circumstances it was the opinion of the French Government that the Japanese were in reality not in a position to antagonize violently France, Great Britain, and the United States.

BULLITT

⁷³ See pp. 1 ff. *passim*.

893.00/14450: Telegram

*The Counselor of Embassy in China (Lockhart) to the Secretary of State*PEIPING, October 10, 1939—noon.
[Received October 10—7:30 a. m.]

535. Peiping's 530, October 6, 4 p. m.⁷⁴ According to a reliable Chinese source, General Itagaki arrived here October 7 and has been discussing the proposed Central Government and related matters with Generals Kita and Tada (who recently relieved General Sugiyama in command of the North China forces). General Itagaki is understood to be a vigorous supporter of Wang Ching Wei and a strong Central Government for the occupied areas while Kita and Tada are reported to be in favor of large autonomy for North China.

The Chinese informant stated that, although the new Central Government will probably adopt the Chinese national flag, in North China the five-barred flag or a new special flag will be adopted to indicate its special status; he also reports that Wang Ching Wei's "Kuomintang" will not be extended to North China, but somehow the Hsin Min Hui will recognize the "three people's principles".

The informant says that among local circles it is believed that the serious defeat recently suffered by the Japanese military north of Changsha has weakened the position of Itagaki and others who are promoting the new Central Government and may delay its formation. He says that, according to local Japanese, the Japanese leaders are splitting into two groups, one consisting of Nishio and Itagaki who wish to fight until Chiang Kai Shek is crushed and the other consisting of naval, financial and political leaders who desire to bring hostilities to an end, and by negotiations with Nishio and Itagaki if that is the only way of ending hostilities; the second group wishes to avoid friction with the United States and, in order to balance the influence of Nishio and Itagaki, brought about the appointment of Admiral Nomura to the post of Foreign Minister.

Repeated to Chungking and Shanghai. By air mail to Tokyo.

LOCKHART

893.00/14456

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

No. 345

CHUNGKING, October 10, 1939.
[Received October 27.]

SIR: I have the honor to enclose for the information of the Department a copy of a Central News Agency release⁷⁵ dated October 9,

⁷⁴Not printed.⁷⁵Not reprinted.

1939, on the subject of a message to the Chinese people issued by General Chiang Kai Shek on the eve of the anniversary of the establishment of the Chinese Republic.

While much of the statement comprises a repetition of themes long familiar to readers of General Chiang's speeches and messages, it is of interest to note that in the message under reference General Chiang devotes particular attention to the question of resistance in the occupied areas and to the problem of dealing with Chinese disloyal to the National Government. The emphasis laid on the prospect of a long war tends to discredit rumors that General Chiang has any intention of compromising with the Japanese and likewise indicates that he sees no immediate prospect of driving the Japanese out of China. The latter implication may, of course, be a reflection of a policy referred to by Mr. T. V. Soong in a private conversation on October 2, 1939—namely, that the Chinese would attempt no general counter-offensive as long as the European war lasted (My despatch No. 341, October 4, 1939⁷⁶).

It will be noted that General Chiang predicts continued hardships and sacrifices, and makes no reference to the recent reported military successes of Chinese forces in Northern Hunan, even though these successes are regarded by some observers as the most significant since the beginning of hostilities. In this connection it may be observed that the Far Eastern Manager of the United Press, Mr. John Morris, who in the course of the last few months has travelled from the Nonmonhan front in Manchuria to Chungking by way of Shanghai and Hong Kong, remarked to a member of my staff on October 9 that he thought the Japanese might be forced to abandon their campaign in China in less than a year. In spite of the evidence on which such a theory may be based, however, General Chiang indicates in the statement under reference that he takes a sober and realistic view of the problem and foresees a prolonged struggle.

Briefly, General Chiang, in the statement in question, declares that sacrifices greater than those made in the past will be required if the war is to be won; that the revolutionary background of the National Government is to its advantage in carrying on the present struggle; that guerilla warfare must be intensified; that civilians must cooperate in "exterminating" disloyal elements, and must undertake to sabotage all Japanese or Japanese-sponsored industries and other projects; that the people should neither "entertain a false sense of security nor wish for a quick end". In conclusion, he urges the Chinese people to "recultivate the vigorous revolutionary spirit of 28 years ago".

Respectfully yours,

NELSON TRUSLER JOHNSON

⁷⁶ Not printed.

793.94/15442

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] October 11, 1939.

During the course of a call Mr. Morishima, Counselor of the Japanese Embassy, said that he thought that a new central régime would be set up very soon under Wang Ching-wei and that entirely harmonious relations existed between the present régime at Peiping and the present régime at Nanking. He stated that the new central régime would not be a puppet régime, as some Americans seem to think, but would be a fully independent and well-established government.

I asked Mr. Morishima how long he thought the new régime or the present régimes at Peiping and at Nanking would last if the Japanese armed forces should be withdrawn from China today. Mr. Morishima replied that he thought it would probably be necessary, from the point of view of combating communist activities, for the Japanese forces to remain at certain points in China for a certain period of time. He said that he thought that Wang Ching-wei's government would make a request of the Japanese Government that the Japanese Government keep Japanese armed forces at such points for a period of time. I inquired whether Mr. Morishima thought that Mr. Wang Ching-wei would make such a request of the Japanese Government or whether the Japanese Government would suggest to Mr. Wang Ching-wei that he make such a request.

When Mr. Morishima referred to "Manchukuo" and to the fact that our consular officers there took matters up with the authorities of the "Manchukuo" régime, I asked Mr. Morishima whether he thought that the "Manchukuo" régime would last if Japan should withdraw its armed forces from Manchuria. Mr. Morishima replied that Japan had signed a treaty with "Manchukuo" providing for the stationing of Japanese troops in Manchuria. I said that I was aware of that fact but that I still raised the question whether any régime should be regarded as a government when and if it had to depend upon the presence of the military forces of a foreign country to sustain itself.

M[AXWELL] M. H[AMILTON]

793.94/15421: Telegram

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

CHUNGKING, October 17, 1939—noon.

[Received October 17—10:54 a. m.]

557. 1. Since my 493 [495], August 13, 9 a. m.; and 520, September 6, 10 a. m., there have been developments which lead me to the

conviction that the Japanese position in China is materially deteriorating.

2. Japan has since the beginning of spring of this year suffered the following defeats and disasters:

(a) Japanese military failed in efforts to invade Shensi, having suffered military defeats at the hands of Chinese forces [in] Shansi, southern Honan and northern Hupeh.

(b) Japanese forces were severely defeated by Russo-Mongolian forces at the Nomonhan. This defeat compelled the Japanese to withdraw forces from northern China and to move new troops into Manchuria to reinforce their position in Manchuria against the Russian threat.

(c) Floods in the province of Hopei have brought devastation to the principal area from which the Japanese military expected returns from their military investment in China. So serious is the situation in that province that a new crop can hardly be expected until 1941. This means that the coming winter and next summer will see serious famine conditions throughout that area with banditry rife and trade stagnant.

(d) The conclusion of the Russo-German nonaggression pact was a severe blow to the prestige at home of the Japanese military who have controlled Japanese foreign policy since 1931. The resultant enhancement of the prestige of Moscow and Russian successful extension of influence into Poland and the Baltic States has presented Japan with a Russian government with revived interest in restoration of its position in eastern Asia.

(e) The denunciation of the Japanese-American commercial treaty further damaged the prestige of Japanese military control of Japan's foreign relations as the Japanese began to appreciate the fact that this action on the part of Japan's chief customer was the result of Japanese handling of the situation in China.

(f) The outbreak of war in Europe has shut Japan off from European markets, particularly Germany. The continuance of warfare in China and continued delay in settlement of the "China Incident" with its drain upon Japan's financial position and industry makes it difficult for Japanese industry to enjoy the commercial benefits in markets hitherto dependent on European industry.

(g) The Japanese military after jeopardizing an expensive expeditionary force for the purpose of invading Hunan and occupying Changsha have suffered a severe reverse at the hands of the Chinese troops. There seems to be no doubt that the occupation of Changsha, apparently considered an easy matter, was intended to signalize the setting up of a unified Chinese Government at Nanking under Wang Ching Wei and General Nishio. The Japanese Army in China must now make another effort in order to restore the morale of their forces or abandon that plan. Their failure in Hunan accentuated the

(h) Collapse of plans to inaugurate the unified regime at Nanking and thus lay the basis for a face-saving arrangement between Japan and the Wang Ching Wei regime which could be presented to the public in Japan as the settlement of the "China Incident".

(i) Still unexplained is the decision by the Japanese military to retire from Chungshan to initiate the successful and expensive occupa-

tion of Shekki. Chungshan, [*sic*] unless the forces thus withdrawn are for the purpose of assisting in the rehabilitation of the situation arising out of the Hunan defeat.

(j) The collapse of the plan for the setting up of unified regime in Nanking carried with it plans for the unification of Japanese controlled currency in the occupied areas.

3. Chinese national morale has been buoyed up by these series of Japanese disasters. Chinese determination to continue the struggle confident of their ultimate ability to defeat the Japanese military has increased.

4. To me at this distance from Tokyo and contemplating fallacies purely from the Chinese angle (and with all due deference to better informed opinion in Tokyo) it appears that the recent revolt in the Japanese Foreign Office is symptomatic of the civilian revolt that has been growing internally in Japan against military domination of Japan's foreign relations, a domination that has isolated Japan [from?] Japan's best markets and impoverished her to the point where she can hardly hope to recover ground thus lost. The coming winter may be expected to see Japanese policy turned to appeasement in fields where she has been truculently confident of ultimate military success. It is my conviction that Japan has reached the peak of her military effort in China and that deterioration has begun.

Repeated to Peiping, Shanghai. Shanghai please repeat to Tokyo.

JOHNSON

793.94119/596 : Telegram

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

CHUNGKING, October 17, 1939—1 p. m.

[Received October 17—7:30 a. m.]

558. Department's 192, October 12, 5 p. m.⁷⁷ Report referred to originated with French Embassy here which was told by a friend in the Chinese Military Council that it had been given for consideration a letter addressed directly to Generalissimo by Hitler. French Embassy believed letter referred to possible peace proposals. German Embassy denied flatly that any such letter had ever been sent; stated that Colonel Kriebel, former German Consul General at Shanghai, who had formerly been a military adviser to Chiang Kai Shek, upon being recently appointed Minister and therefore detached from service in China, had written a personal letter to the Generalissimo in which he expressed his regret at not being able to return to China and his appreciation for their long and pleasant [relations?]. This letter came not long ago with instructions that the German Embassy

⁷⁷ This telegram repeated the seventh paragraph of telegram No. 2391, October 9, 5 p. m., from the Ambassador in France, p. 232.

deliver it to Chiang. German Embassy stated that it had kept this visit quiet to avoid rumors and feared that this rumor was based on that visit and that it would be reprimanded by Berlin. This would appear to be the basis of the report.

JOHNSON

761.93/1675 : Telegram

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

SHANGHAI, October 19, 1939—11 a. m.

[Received October 19—7:45 a. m.]

French official circles here comment on growing Soviet influence in China, the heavy increase in Soviet military supplies for Chinese forces, renewed activity of Soviet airmen who are said to have carried out the recent raids over Hankow, and heavy augmentation of staff of Soviet Embassy including numerous military advisers. At the same time it is reported here that the French military mission is leaving China, and I learn confidentially that "some" of the French troops in China "may be" withdrawn for service in France.

Sent to Chungking and Peiping.

GAUSS

893.0146/721

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 20, 1939.

The British Ambassador called at his own request and handed to me the accompanying *aide-mémoire*⁷⁸ relative to the removal of the British guards from Tientsin and Peking. He then proceeded to say that his Government would be interested to know how this Government feels in regard to this proposal.

I replied that while it was not in any remote sense the function of this Government to offer advice to his Government in regard to this particular matter, especially in view of the very unusual circumstances existing both in Europe and in Asia, I might say that my Government does not undertake to maintain an inflexible policy in the Japanese-Chinese situation, in view of the state of flux existing in China, as it does in Europe. I stated that I could, however, sum up for him our course and attitude up to this time. From the beginning, I said, this Government has not yielded in any sense on the fundamentals of its policies in Asia; it has continued to reiterate the principles on which its rights and privileges and interests are understood to rest; it has at the same time complained and protested to the Government

⁷⁸ *Infra.*

of Japan and made all appropriate reservations; as a part of this program we have kept our guards at Shanghai, Peking and Tientsin, and, in any event, our present plan is to retain them in each of these three cities no matter what may take place in other respects; this was true regardless of the possible course of other governments of removing their guards. I told the Ambassador that in determining our own policy in regard to our guards in China, I had said to my associates that if we should remove them it would have a depressing effect on China, an encouraging effect on Japan, and to some extent a depressing effect on Britain and France, likewise parties to the Nine-Power Treaty having interests in the Far East.

I remarked that Ambassador Grew's rather blunt speech at Tokyo last evening⁷⁹ was the latest summing up and the latest utterance on the part of this Government in support of its policies in China.

I then inquired of the Ambassador whether his Government had made a check-up to ascertain whether Japan is abandoning or has really abandoned her request of several weeks ago to the British and French to take their guards out of China. He replied, in effect, that as a matter of fact, his Government had never intended as a policy to keep guards in China in time of an important war in Europe, and that, furthermore, to take the guards out now would save the face, so to speak, of his Government, since the Japanese Government is not immediately persisting in its original request. I said, "Well, I have been under the slightly different impression that the British would ordinarily retain their guards." I then added that the general public everywhere would in their minds connect the withdrawal of the British guards with the Japanese request of some weeks ago and there would be but little saving of prestige. I stated that again I was not undertaking to offer advice. The Ambassador said his Government would be in an embarrassing situation if Japan's request should be made a demand.

He inquired what I thought the effect would be if his Government should leave a symbol in the form of a very few guards at each of the aforementioned cities and withdraw the others. I replied that that might mitigate the loss of prestige to a small extent, but only to a small extent, although, I said, that in such case the British Government, I assumed, would in some definite way proclaim its purpose to maintain its rights and interests in China in the future.

The Ambassador seemed a little disturbed about the more recent attitude of his Government to the effect that it would have taken its guards out of China in any event and that its only concern now is to get them out without appearing to be doing so under Japanese pressure. I commented generally that foreign officers elsewhere and the

⁷⁹ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 19.

general public everywhere knew Great Britain was seriously and wholly preoccupied with the European war and they would most likely relate any evacuation of British guards from China to this preoccupation which the Japanese Government was taking advantage of in making its request.

I then stated that my Government might make further purchases of commodities from China by establishing credits here through the Export-Import Bank, and added that this Government is discouraging private capital and private business in this country from cooperating with Japanese interests, both public and private. I said I hoped the British Government was doing likewise as to its citizens.

The Ambassador stated that the Burma road was open and would be kept open by his Government.

C[ORDELL] H[ULL]

893.0146/726

The British Embassy to the Department of State

AIDE-MÉMOIRE

The substance of the State Department's *Aide-Mémoire* of September 27th regarding the situation in the Far East was duly communicated to His Majesty's Government in the United Kingdom. His Majesty's Embassy have now been informed that His Majesty's Government, after giving careful consideration to every aspect of the question, have come to the conclusion that it is desirable to withdraw their garrisons from Tientsin and Peking as early as possible. It had always been their intention to withdraw these garrisons in the event of a European war, since they serve no essential military purpose, and since the trained personnel could more usefully be employed and are, indeed, needed elsewhere. This intention was only not carried out on the outbreak of war because of the Japanese pressure on His Majesty's Government to withdraw the garrisons. That pressure is not being exercised for the present, and it is felt that sufficient time has now elapsed since the Japanese "friendly advice" was given to enable His Majesty's Government to withdraw their garrisons without loss of prestige on that score.

Moreover, owing to the recent disastrous floods at Tientsin, the barracks are now uninhabitable, and the cost of repairing them would be very considerable. If the barracks are not to be repaired, the garrisons must be withdrawn before the cold weather sets in at the end of November and the necessary arrangements for their removal for shipping and escort and accommodation elsewhere must be made as soon as possible. A definite decision on the question of withdrawal must therefore be taken in the near future.

His Majesty's Government would naturally have preferred to postpone the withdrawal until after a settlement had been reached of the negotiations regarding Tientsin and the silver and currency questions. It now seems however as if these negotiations should be regarded as being more or less indefinitely suspended, and that being so, for the reasons given above, His Majesty's Government consider that the present is the best time to effect the withdrawal of the garrisons.

In coming to this conclusion His Majesty's Government have not been unmindful of the interest of the United States Government in the matter, and they wish to make it clear that it is no part of their present intention to withdraw their troops from Shanghai, where American interests are so much more important than they are in North China. Nevertheless His Majesty's Government appreciate that the United States Government, in common with His Majesty's Government and other Powers, have jointly contributed towards the maintenance of their common obligations under the Boxer Protocol, and that at the present moment they maintain troops in Tientsin and Peking to safeguard their rights.

His Majesty's Government have however at the present moment when they are engaged in war in Europe very cogent and practical reasons as set forth above for withdrawing their troops from North China. They realise that the United States Government will hardly welcome such a withdrawal, but even so they trust that the United States Government will appreciate the difficulties of the position in which His Majesty's Government finds itself and will not take exception to the steps which they are now contemplating.

WASHINGTON, October 20, 1939.

893.0146/725

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] October 20, 1939.

Lord Lothian called on me immediately after having called on the Secretary,⁸⁰ and he handed me a copy of the British Embassy's *aide-mémoire* of October 20, the ribbon copy of which he had handed to the Secretary.⁸¹ He said that his Government wished to be informed of the Department's reaction to the communication made to us.

I read the *aide-mémoire*. I then asked Lord Lothian what the Secretary had said. Lord Lothian replied that the Secretary had said that he could not give the British Government advice, that this

⁸⁰ See memorandum by the Secretary of State, p. 289.

⁸¹ *Supra*.

Government would of course regret withdrawal by the British Government of its forces as indicated, but that this Government, as already stated to the British Government, intended to keep its forces where they are. I then said to Lord Lothian that were I the Secretary and were I commenting officially I would say exactly the same things. Lord Lothian wished to know whether there was any comment that I would care to add. I said that, by way of giving further information regarding this Government's decision than had been already given, and speaking informally and unofficially, I might say that, in the course of arriving at our decision to keep our forces where they are, we had given consideration to the history of relations of this and other Governments with the Chinese Government, of the establishing of the diplomatic missions and later the placing of foreign armed forces in north China, the responsibilities and obligations which had developed, the treaty provisions, the interests and needs of our nationals, political factors and psychological factors, features of the present situation, possible reactions of peoples of other countries, etc., etc. I mentioned the readjustments which we had made in the disposal of our armed forces at Tientsin and Peiping in 1938—with our reasoning in connection with the decisions made at that time. I mentioned the services which our armed forces have performed especially during the period of the current hostilities between Japan and China, and I emphasized the feature of maintaining an uninterrupted line and channel of communication. And I said that we had decided that we needed certain armed forces at the points under reference and we intended to keep our flag flying. Lord Lothian mentioned reasoning of the British Government as indicated in the *aide-mémoire*. I said that there were two points in the *aide-mémoire* upon which I would take the liberty of making comments. I said that the British Government affirmed that it thought it could withdraw its armed forces now without loss of prestige, and I said that personally I doubted whether this estimate was correct. I called attention to the statement that the British Government appreciated that the American and other Governments are maintaining armed forces for the purpose of protecting their rights, and I said that, so far as this Government is concerned, we are maintaining our landed armed forces in China for the purpose of contributing to the protection of the lives and persons of American nationals and the rendering of certain services of a comparatively essential, useful and non-military character, but not for the purpose of enforcing rights in general.

Lord Lothian said that the British Government had not decided conclusively that it definitely would withdraw its forces. He wanted to know what I would think of the idea of their maintaining very small forces, a "corporal's guard" at each of the two points indicated.

He made the observation that, if they withdrew some forces on a temporary basis, it would be easier to send forces back if they maintain some forces on the spot in the interval than if they had made a clean sweep. I replied that we had been wondering what they intended to do with their valuable plant in the Legation Quarter at Peiping; did they intend to vacate it and bar the gates and let it stand empty or did they intend to employ a corps of watchmen, or what? Lord Lothian did not know, but he felt personally that they ought to keep a guard and ought to keep their flag flying. I asked whether they would leave their Consulate at Tientsin with no guard. Lord Lothian asked whether a guard could be attached to a consulate. I said that I thought such things had been done at some points in the world and in some periods. Lord Lothian asked whether our force at Tientsin is attached to the Consulate. I replied in the negative. Lord Lothian asked whether a concession "falls" with the removal of the armed forces of the concessionaire country. I replied that as I understand it a concession exists by virtue of certain grants made by the sovereign authority to a foreign government; that it involves the rights and obligations of some administrative performance on the part of the concessionaire; that whether a necessary adjunct of administrative performance is or is not the maintenance of some kind of a police force is, I would assume, a matter between the grantor and the grantee; but that I would surmise that, if the local Chinese authorities, actuated and controlled by Japanese authorities, had to assume the responsibility of policing the concession, it might not be long before those same Chinese authorities, with the same actuation and control, would be declaring the rights of the concessionaire null and void. I then went on to say that, as Lord Lothian well knew, there has appeared from time to time an indication of a hope on the part of British and French authorities and nationals, and even on the part of some American nationals, that the Government of the United States would take upon itself some new and special responsibilities for the defense of so-called "common interests" of Great Britain and France and the United States in the Far East and especially in China. I said that it may be all right for some people to wish that but that people who hope, and still more, any people who may think, that there is going to be such a development are in my opinion ignorant of or unwilling to give adequate consideration to the realities of the situation. I said that, the world situation and the situation in this country being what they are, and public opinion in this country being what it is, I thought that there existed no chance whatever that the American Government would assume any responsibility regarding, for instance, the British and the French Concessions at Tientsin. I said that we have no thought whatever of undertaking to police such areas, either for protection of

persons or for protection of property. I said that it stood to reason that, if British or French nationals fleeing from great personal danger came into areas where American armed forces were in position, the American forces might reasonably be expected to afford such protection as might be possible to such alien persons along with American nationals, but that that would be on a basis of humanity rather than on a basis of political objectives or legal commitments or obligations. Lord Lothian said that he understood the realities of the situation.

Lord Lothian said that he was going to urge upon his Government that it not make a complete withdrawal of its forces. I said that I would suggest and request that, in reporting to his Government on his conversations with the Secretary and with me, he make it clear that we were not endeavoring to advise or to influence the British Government. He said that he would do so. I said that I would further suggest that he suggest to his Government that they should not say that they had asked our opinion or had been in consultation with us; I said that we had reached our decision by ourselves and that the British and the French Governments ought to reach their decisions on the basis of their own estimate of their own interests. Lord Lothian said that he would make this suggestion. I asked what the French Government was saying or had decided. Lord Lothian said that he did not know. I adverted to the fact that in previous approaches the British Government had told us of the upshot of exchanges of views between themselves and the French Government. Lord Lothian said that in this instance his Government had not informed him of any new developments as regarded the French.

STANLEY K. HORNBECK

793.94/15426: Telegram

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

PARIS, October 20, 1939—5 p. m.

[Received 5:20 p. m.]

2534. Li Yu Ying⁸² called on me this morning. He left Chungking on the third of this month and was accompanied as far as Hanoi by T. V. Soong. He said that General Chiang Kai Shek had requested him to give me the following personal message.

His policies and convictions remained the same as they had been at the time of our conversations in Nanking in the autumn of 1934.⁸³ I could be absolutely certain that—whatever rumors to the contrary I might hear—he would continue to fight to the bitter end until Japa-

⁸² President of the Chinese National Academy.

⁸³ For extracts of Ambassador Bullitt's report on his visit to Japan and China, see his despatch dated January 8, 1935, *Foreign Relations*, 1935, vol. III, p. 4.

nese troops should be withdrawn from Chinese soil. He positively would not agree to a compromise peace. He was absolutely confident with regard to his present position and felt certain that he could continue to maintain resistance to Japanese aggression not merely for 2 or 3 years but for an indefinite future if necessary.

My informant, Li Yu Ying, went on to say that Chiang Kai Shek had ordered him to break off his visit to the western provinces of China and leave hurriedly for Paris because of telegrams from Wellington Koo which indicated that the French Government was contemplating a change in its policy vis-à-vis China and Japan.

Koo had expressed the fear that France would first mollify Japan by placing further apparent restrictions on exports to China by way of French Indo-China (while in reality permitting the passage of goods as formerly) but that at a later date France would attempt to bring pressure on the Chinese Government to agree to a settlement of the present war satisfactory to Japan.

Li Yu Ying said that he was at Hanoi when the French Governor General had summoned the Chinese Consul and informed him that no more shipments would be permitted over the French railroad. Two days later, however, the French Governor General had summoned the Chinese Consul and had informed him that trucks and gasoline could go through as heretofore. This action had seemed to indicate that Wellington Koo's fears were well grounded.

Li Yu Ying added that on arrival in Paris he had called at once on Mandel, Minister of Colonies, and had received a full and satisfactory explanation, which indicated that the same goods would continue to go forward over the French railroad through Indo-China as had been going forward in the past over that line.

He asked me if I was under the impression that the French Government intended to change its policy vis-à-vis China and Japan adding that Chiang Kai Shek had requested him to obtain my personal opinion on this point.

I explained the fears of the French and British which had produced the decision, now in suspense, to withdraw the French and British troops and gunboats from Chinese territory. I added that certain French officials especially Leger had been intensely apprehensive that the Soviet Union might send bombing planes to assist the German Army in attacking France and that their somewhat hysterical conclusion had been that France might be able to persuade Japan to attack the Soviet Union. They desired therefore to placate Japan.

I added that fears of a Soviet military attack on France had now greatly diminished and that Leger himself had said to me yesterday that he did not now believe that there was any danger that Soviet bombers would be sent to assist the German army. I did not, there-

fore, consider that there was any immediate danger of a fundamental change in French policy vis-à-vis China and Japan.

Li Yu Ying said that Mandel had stated to him that the French Government had information to the effect that the German Government had made an attempt to mediate between China and Japan (see my No. 2391, October 9, 5 p. m. and your No. 1277, October 19, 9 p. m.⁸⁴) and had gone so far as to state that he understood that Hitler had written a personal letter to Chiang Kai Shek.

Li Yu Ying said that he could not guarantee that some such move had not been made by the German Government since he had been absent for some time from Chungking and Chiang Kai Shek might have forgotten to mention the matter to him.

He felt absolutely certain, however, that if the German Government had made any such proposal Chiang Kai Shek had rejected it immediately. He was absolutely certain that the Generalissimo would not consider any compromise now with Japan. He had telegraphed Mandel's inquiry to Chiang Kai Shek and expected to have a definite reply within the next 2 or 3 days which he would communicate to me.

The Generalissimo, he added, was completely confident that China in the end would emerge victorious.

BULLITT

794.00/159 : Telegram

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

TOKYO, October 21, 1939—11 p. m.
[Received October 21—2:18 p. m.]

539. 1. Admiral Nomura made his first public statement concerning foreign policy last night. The statement was evidently previously prepared and handed or read to the correspondents on the occasion of the Minister's departure for the Ise shrines. Comment by most papers is largely limited to emphasis on certain excerpts.

2. The statement is divided into seven sections which are summarized as follows:

(a) Disposition of the China incident: the Government will actively assist the movement to establish a new Central Government in China. In so doing full consideration will be given to actual conditions in China and to the general situation at large. A strong government worthy of the confidence of the Chinese people is desired even more than early establishment of any government.

The new order in East Asia which we seek is not the petty anti-foreign movement suspected by third countries but is of such form and substance as will enable East Asia, as East Asia, to contribute most effectively to the peace and progress of the world. The grand

⁸⁴ Telegram No. 1277 reported No. 558, October 17, 1 p. m., from the Ambassador in China, p. 288.

resolution of the Japanese people cannot be altered by the intervention of third powers. Our efforts shall be sincerely devoted to creating an understanding on the part of third powers of these two facts.

(b) Relations with Great Britain and France: the key to relations with Great Britain and France is their understanding of this new order in East Asia and their cooperation with Japan to accomplish that order.

(c) (Full translation) Relations with the United States: Ambassador Grew has recently returned to his post, and I therefore look forward to hearing from him the trend of thought in American official and unofficial circles, and to a frank exchange of views concerning the events which have transpired in East Asia during his absence. I am very glad to hear the Ambassador say that he will devote his life to the promotion of friendship between Japan and the United States. Friendship is founded on mutual understanding. Mutual understanding springs from the facing of actual conditions in an unbiased open hearted manner while at the same time placing oneself in another's position. The Japanese, as I have said, have adopted a broad fundamental ideal and with unshakeable resolution are engaged in the great work of rebuilding East Asia. I sincerely hope that this objective and this resolution will come to be properly understood in the United States.

It appears that the first concern of the United States with regard to the unfortunate war which has broken out in Europe is, as evidenced by the resolution of the recent Panama Conference,⁸⁵ to prevent the spreading of that war to the American continents. Japan also has the same concern for East Asia; and is striving by various means to prevent the spread of the European conflict to East Asia. I believe the United States can well understand Japan's position in this matter and that the United States and Japan while each maintaining peace in its own area should mutually endeavor to establish firmly peace on the Pacific Ocean.

(d) Relations with the Soviet Union: my policy shall be to clear the atmosphere between Japan and Russia and to establish normal relations by amicably settling border and other questions.

(e) Relations with Germany and Italy: the Anti-Comintern Agreement is still a basic part of Japan's policy and the good relations with these countries on the basis of this agreement have not been affected.

(f) Relations with countries in the South Seas: Japan hopes for mutual prosperity and cooperation with these countries but cannot tolerate assistance to Chiang Kai Shek. Japan is also deeply concerned that vital supplies from those areas not be interrupted.

(g) European war prospects: I believe the European war may well be of long duration.

3. The press was restrained in its comments emphasizing particularly the part of the statement concerning relations with the United States in which Nomura expresses the hope that the United States will realize Japan's lofty purpose and unshakeable determination.

⁸⁵ See the Declaration of Panama on October 3, 1939, printed in vol. v, section entitled "Meeting of the Foreign Ministers of the American Republics . . ."

4. Comment by the Embassy on Nomura's statement, except that it is believed to be a sincere expression of his policy, is withheld until after my next interview with him. It may be significant that the Minister's private secretary yesterday spoke to me very favorably of my speech before the America-Japan Society.⁸⁶

Repeated to Shanghai. Shanghai please repeat to Chungking, Peiping.

GREW

893.00/14478

*Memorandum by the Ambassador in Japan (Grew) of a Conversation With the British Ambassador in Japan (Craigie)*⁸⁷

[Tokyo,] October 21, 1939.

Sir Robert, while returning my call today, said he thought that my speech before the America-Japan Society would be helpful to British as well as to American interests. He congratulated me on the speech.

He spoke at length on the developing situation in China. From the information which has reached him he believes that Chiang Kai-shek is moving steadily closer to Soviet Russia and he feels that western interests in the Far East have even more to lose through Soviet penetration into China than through Japanese penetration. There may even be a risk of some eventual understanding between Japan and Soviet Russia for the apportionment of China in spheres of influence between those two countries.

Meanwhile Wang Ching-wei appears to be emerging as a possible national nucleus in China. Sir Robert understands that Wang is by no means subservient to the Japanese and he believes that if Wang can succeed in gathering sufficient influence and support among the Chinese, as now seems possible, to establish a new regime in Central China, he will not permit the Japanese to use him as a puppet. Therefore, in case Wang should really emerge as a new leader, it is important that the democracies and the press of the democratic countries should not treat him with derision and should not close the door to possible relations with him in future. He pointed out that the Nine Power Treaty applies to China as a whole and that if an effective new regime emerges which might eventually prove to be of preponderant influence in China, we should not be estopped from dealings with that regime through any political technicalities. After

⁸⁶ On October 19; for text of speech, see *Foreign Relations, Japan, 1931-1941*, vol. II, p. 19.

⁸⁷ Copy transmitted to the Department by the Ambassador in his despatch No. 4229, November 8; received November 29.

all, new regimes or governments had emerged in other countries and in due course had been recognized as the true representatives of the country. Sir Robert realizes that we cannot yet foresee what is going to happen and that it is much too soon to pin any faith on Wang, but he believes there are possibilities that Wang may eventually prove to be the real solution of the Chinese problem and that for that reason we should avoid discrediting him in advance and should take no steps, especially in our press, to incur his enmity. He said that the French Ambassador concurs in this view and he hoped that the three of us might consider sending some sort of recommendations along those lines to our respective Governments.

I said in reply that I would be glad to have all this in mind and that if he should draft some communication on this subject to his Government it would interest me to see it,⁸⁸ but I thought the time was by no means ripe for such a move at present. We must watch and await developments. I also pointed out that the American press is independent and will arrive at its own conclusions. Sir Robert acknowledged this fact but thought that even the American press is not averse to occasional steers from the Government. I added that according to my own information, Chiang Kai-shek is optimistic and has every intention of pursuing the hostilities to what he feels will be a successful outcome.

JOSEPH C. GREW

893.00/14455 : Telegram

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

SHANGHAI, October 23, 1939—6 p. m.

[Received 7:30 p. m.]

932. Department's 503, October 5, 2 p. m.⁸⁹ According to a local French source, Domei at London sent to its home office the following report, which may not have come to the attention of the Department and which I forward because of its especial interest in this general connection:

(Translation) "The *Daily Herald* published today (October 22) an interview with the Chinese Communist General, Mao Tse Tung, obtained at Yen-an (Shensi) by Mr. Edgar Snow. In that interview, Mao Tse Tung declared notably that the Chinese Communist Party had never accepted the control of the Kuomintang and that it continues to pursue its own program, having as final aim social revolution.

⁸⁸ The substance of the British Ambassador's telegram of November 3 was communicated to Ambassador Grew on November 6; it advised caution toward a new regime (893.00/14478).

⁸⁹ Citation garbled; it may have referred to telegram No. 385, October 3, 3 p. m., to the Ambassador in China, not printed.

Mao Tse Tung emphasized that the zones which are now occupied by the Communist armies are, from the administrative point of view, independent of Chungking.

Now that France and Great Britain have ceased to aid China, the Soviet Union contrariwise has decided to assist still more the Chinese Government, on the condition always that China pursues energetically the struggle against Japan and establishes closer political ties with the Soviet Union.

The British policy in the Far East is now completely changed: Great Britain exerts itself now to break down the Chinese resistance and to aid Japan in imposing upon China a Japanese peace.

The primary task for the China of today, continues Mao Tse Tung, is to modify the old political system. Neither the unification of the country nor victory over Japan is possible if the dictatorship of the Kuomintang is not abolished, and if China does not become a democracy in the government of which the Communists will be represented like other political groups."

Repeated to Chungking, and Peiping. By air mail to Tokyo.

GAUSS

793.94/15443: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, October 24, 1939—4 p. m.

[Received October 24—1:12 p. m.]

555. Chungking's 557, October 17, noon, section (g). An American resident of Kaifeng, Honan, who arrived here yesterday on a visit and whose reports have hitherto proved accurate states that for many months the Japanese military at Kaifeng have been training a corps of Chinese soldiers with the intention of using them in pacification work or garrisoning Kaifeng thus relieving the strain on Japanese troops. He reports that 10 days ago the Japanese held an imposing ceremony at which the Chinese corps of 800 men who had previously drilled unarmed were given rifles, ammunition and their pay; the same night the entire corps revolted, killed their Japanese military "advisers" (some four or five officers) and joined the Chinese forces in the region. The informant commented on the significant connection between this revolt and the Japanese reverse at Changsha of which he stated Chinese in Kaifeng were well informed through radio. The presumption is that the Japanese were bitter over this wrecking of their plans and trouble.

Repeated to Chungking, Shanghai. Code text by air mail to Tokyo.

LOCKHART

793.94119/603

Memorandum of Conservation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[Extract]

[WASHINGTON,] October 25, 1939.

At the Secretary's suggestion, concurred in by Mr. Hornbeck, I asked Monsignor Ready⁹⁰ to call in reference to the cablegram which the Apostolic Delegate in Washington received from the Secretariate of State of the Holy See, a copy of which Monsignor Ready left with me on October 10,⁹¹ in regard to information received by the Secretariate of State from an unnamed source that Chinese officials "desire the Holy See to take steps to establish peace between China and Japan".

I told Monsignor Ready that we wished to give him a statement by way of acknowledgment and reply to the cablegram a copy of which he had left with us. I then handed him the ribbon copy of the attached statement.⁹² . . .

M[AXWELL] M. H[AMILTON]

793.94119/603

*The Department of State to the Secretariate of State of the Holy See*⁹³

The spirit which prompted the Secretariate of State of the Holy See to bring to the attention of the Government of the United States the information contained in the Secretariate of State's cablegram is very much appreciated. This Government has had and continues to have the situation in the Far East very much in mind and it is our constant desire to make such contribution as may seem appropriate and be practicable toward the cause of peace among nations.

761.93/1678: Telegram

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

WASHINGTON, October 27, 1939—1 p. m.

209. The Embassy at Moscow, reporting on October 23,⁹⁴ refers to an article in the *Pravda* charging Domei with distributing false

⁹⁰ Monsignor Michael J. Ready, of the National Catholic Welfare Conference, Washington.

⁹¹ Not printed.

⁹² *Infra.*

⁹³ Handed to Monsignor Michael J. Ready on October 25.

⁹⁴ Telegram No. 788, 8 p. m., not printed.

reports in regard to alleged Soviet demands upon China and observes that it is significant that the article refrains from associating the Japanese Government with its charge and that the article provides a convenient method of denying Soviet pretensions in China. The Embassy states it is informed by the Japanese Embassy that the Soviet-Japanese discussions at Moscow in regard to border demarcation are making little progress. The American Embassy notes also that reports have been received from Japanese and French sources indicating an increase recently in Soviet shipment of war materials to China. The Embassy is of the opinion that the Soviet Union is still desirous of adjusting its relations with Japan so as to avoid complications in the Far East and regards increasing Soviet aid to China as possibly a means of exercising pressure upon Japan in furtherance of Soviet aims.

Sent to Chungking. Identical telegram sent to Tokyo.

HULL

793.94/15444 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, October 27, 1939—3 p. m.
[Received 8:20 p. m.]

562. Department's 203, October 21, 2 p. m., to Chungking.⁹⁵

1. If day to day developments in North China the past year made clear any one fact it is that the Japanese are applying to this region exactly the same methods and tactics they employed in Manchuria. Military, political, financial, economic and cultural policies are now so completely interwoven into one pattern that one is forced to the conclusion that the Japanese believe that they are here to stay at least in larger cities and along the railways in the areas actually occupied. The Japanese population at Peiping according to a late census is now in round numbers 37,000, Tientsin 44,000, Kalgan 7,000, Tsingtao 22,000, Tatung 4,000, Shihchiachwang 7,000, and Tsinan 11,000. These figures represent tremendous increases over a year ago. There has also been a pronounced influx into the smaller towns.

The big development companies are here and are getting into everything that gives the slightest promise of returning a profit and the Japanese Government is seeing to it that the way is paved. If ever a policy of industrial development and economic cooperation between China and Japan is put into operation in North China by mutual

⁹⁵ Not printed.

consent, the Japanese are certain to be the dominant factor because they are from long experience industrialists and economic exploiters and the promoters of the larger enterprises know that they can count on their Government to support them.

2. The Federal Reserve Bank is losing no ground if indeed it is not slowly gaining in areas actually under Japanese occupation. Foreign exchange transactions in Federal Reserve Bank notes can easily be effected at the open market rate but the great drawback to the conduct of foreign trade with this currency is that such transactions are hampered by the import and export restrictions which make it difficult to carry on such trade except at the government fixed rate which was and that is, also an obstacle faced by businessmen in Shanghai in using Chinese national currency. I believe the currency problem in North China will solve itself in due course but the process will be slow. The average Chinese of the street is not greatly concerned whether the new currency is supported with adequate reserves or not, or whether it can be used in foreign trade transactions. It is difficult to determine as between the businessman and the missionary who will be the greater loser as the result of the Japanese occupation of North China. If "Manchukuo" can be taken as an example, they will both lose heavily, but at least the missionary is still in Manchukuo albeit his work is curtailed and hampered, but the businessman has all but disappeared from that region for the same reasons that the great majority of them are almost certain to disappear from North China within a decade if the present policies are continued. The terms "Asia for the Asiatics" and "The New Order in East Asia" will have a much clearer meaning a few years hence. The foreign businessman in the occupied areas is being harassed as he has never been before and many missionaries in the interior are encountering serious obstacles as regards their work. Signs are cropping out that there is cause for real anxiety for the future of missionary work. Missionaries are discouraged and the businessman likewise sees nothing ahead but trouble and hardship.

4. [*sic*] The Japanese have put out many peace "feelers" during the past year, but the present peace movement which they and their Chinese adherents are sponsoring reflects a much greater urge on their part than is evident to bring hostilities to an end.

There is reason to believe that they fear that the war will drift into an endurance contest, if, indeed it has not already done so, and that in such a contest the Chinese have some formidable assets on their side. To fortify themselves against such a contingency it is obvious that the Japanese are now conducting military operations on a far less grandiose scale than formerly. The profligate expenditure of money has ceased. Men and materials are being conserved. Risks are being

reduced. There is a distinct drift away from military exploits and towards political and economic development. Another attempt to capture Changsha and a renewal of the effort to occupy Shansi will probably be made and if these succeed it may well be that they will be the last big military operations of the war. From then on the major effort will be in the direction of: (1) establishing a new Central Government at Nanking; (2) further attempts at concluding peace; (3) endeavors to regain lost good-will in other parts of the world, especially in the United States; (4) further strengthening of the economic and financial hold on China and, by no means least, (5) to pacify Wang Keh Min and Provisional Government at Peiping and bring them into the fold of the new Nanking Government, which effort will fail unless a change takes place in the attitude of Wang Keh Min and others identified with the Provisional Government.

Repeated to Chungking, Shanghai. Code text air-mail to Tokyo.

LOCKHART

893.0146/727

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] October 28, 1939.

Reference, the British Embassy's *aide-mémoire* of October 20 informing us that the British Government has come to the conclusion that it is "desirable to withdraw their garrisons from Tientsin and Peking as early as possible."

See memoranda of conversations with Lord Lothian by the Secretary and by Mr. Hornbeck.⁹⁶

See draft of a possible *aide-mémoire* in reply, here attached.⁹⁷

See FE's memorandum thereon.⁹⁷

Mr. Hornbeck talked with Lord Lothian on the telephone this morning and, in pursuance of a suggestion made by the Secretary, called Lord Lothian's attention to the fact that there are various indications of a relaxing by the Japanese of their pressure in China upon foreign interests. Lord Lothian said that he had noted some of these indications and that in a recent report to the British Foreign Office he had called attention to the import of those indications. Mr. Hornbeck said that, in the light of what the Secretary and he, Mr. Hornbeck, had said to Lord Lothian on October 20 and of the conversation just now held, we would not expect to make a written reply to the *aide-mémoire* under reference.

STANLEY K. HORNBECK

⁹⁶ October 20, pp. 289 and 292.

⁹⁷ Not printed.

893.0146/752

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] October 30, 1939.

Mr. Mallet, Counselor of the British Embassy, called at his request this afternoon and left with me the attached *aide-mémoire* bearing date October 30.⁹⁸ Mr. Mallet said that he hoped that the decision of the British Government, as recorded in the attached *aide-mémoire*, would be satisfactory to us. Mr. Mallet said that he understood that the decision was in line with comments made by the Secretary and by Mr. Hornbeck in conversations with the British Ambassador. I said that I could make no comment in addition to the comment which had previously been made by the Secretary and by Mr. Hornbeck. I added, however, that it was my recollection that the British Ambassador had in his conversation with the Secretary made inquiry as to what the Secretary thought of the British leaving a few guards at Peiping and at Tientsin as a symbol, and that the Secretary had replied that this would in his opinion operate to mitigate to some extent but not to avert loss of prestige.

I told Mr. Mallet that I would without delay bring the British Embassy's *aide-mémoire* to the attention of the Secretary.

Mr. Mallet commented that he understood that what the British were doing was along the lines of action taken by this Government a number of months ago. I then recounted to Mr. Mallet the action taken by this Government in withdrawing its infantry forces from Tientsin and in replacing those infantry forces with part of the marine guard forces on duty at Peiping.

I assured Mr. Mallet again that I would bring the British Embassy's communication to the attention of the Secretary.

Mr. Mallet said that the British Government desired that its decision in the matter be regarded as strictly confidential.

M[AXWELL] M. H[AMILTON]

893.0146/752

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom have given further consideration to the position of the British garrisons in Tientsin and Peking in the light of the recent conversation on this subject between the Secretary of State and His Majesty's Ambassador. They

⁹⁸ *Infra.*

have now decided that the British battalion at present stationed in North China should be withdrawn. Token forces consisting of company headquarters and two platoons will however be left at Tientsin and one platoon will be left at Peking. These token forces will amount to approximately 175 men. These men will be drawn from the British battalion now stationed at Shanghai and it is proposed to despatch them to North China *pari passu* with the withdrawal of the battalion from Tientsin.

In informing the Department of State of this decision of His Majesty's Government, His Majesty's Embassy has been instructed to request that the information be kept strictly confidential for the time being.

WASHINGTON, October 30, 1939.

751.94/87 : Telegram

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

TOKYO, October 31, 1939—4 p. m.

[Received October 31—7:07 a. m.]

563. Chungking's 566, October 23, 11 a. m.⁹⁹ My French colleague told me recently that owing to France's involvement in the European war it is now the policy of his Government to remove or to avoid all grounds of French friction with Japan.

He also told me that whereas the original instructions from the French Government recalled all French reservists from the Far East, these instructions were later amended to apply only to those men under 40 and that they were subsequently amended to apply only to men under 30 years of age.

Repeated to Peiping.

GREW

893.00/14480

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

No. 361

CHUNGKING, October 31, 1939.

[Received December 2.]

SIR: I have the honor to refer to the Embassy's despatch No. 306, of August 18, 1939, entitled, "Conditions in Northwestern Provinces of China" and to Shanghai's telegram of October 23, 6.00 p. m. concerning the position of the Chinese Communist force known as the Eighth Route Army with respect to the National Government.

⁹⁹ Not printed.

Since friction between the Chinese Communist Party and the Nationalist Party continues to be a source of uneasiness to well-wishers of China, it seems worth while to invite the attention of the Department to an interview with the Communist leader Mao Tse-tung on September 11, 1939, which was published in the *Hsing Hua Jih Pao*, the Chungking Communist organ, on October 20, 1939. A translation and copy are enclosed.¹ A reading of Mao's statements, if it influences the Occidental reader at all, seems to the Embassy calculated to strengthen the opinion of those who believe that the attitude of the so-called "Communists" in the present controversy is more praiseworthy than that of the Kuomintang. Many Americans have the impression that Chinese Communism of the present day resembles far more American democratic concepts than it does either the theories or the practice of present-day Communist Russia. It may be that this favorable view is inspired less by knowledge of the political theories of the Eighth Route Army and its associates than by reports that have been brought out from the Northwest praising the patriotism, bravery, self-sacrifice, and devotion to education and popular betterment of the Communist authorities at Yen-an, in Shensi Province.

However that may be, if one starts with this bias in favor of the "Communist" Government in the Northwest one is convinced by the logic of Mao Tse-tung's assertions that there should be no friction between such political parties as earnestly desire to cooperate in the war of resistance to Japanese invasion; that the creation of a "democratic" government in China is essential to the winning of the war and to post-war reconstruction; and that the Chinese Communist Party desires to cooperate with the Kuomintang, but can do so only in the event that it is assured that it will not meet with interference in the prosecution of its two aims of resistance to the Japanese and the creation of a democratic government in China.

Following publication of the Mao Tse-tung interview on October 20 Secretary Weil had opportunity to discuss it with several prominent Government officials. There is enclosed a memorandum dated October 23, 1939,¹ of his conversation with Mr. Peng Hsueh-pei, Vice Minister of Communications, foreign-educated and a member of the Kuomintang. The entire memorandum is interesting, but it seems desirable here to call attention especially to Mr. Peng's belief that the Communist Party, specifically the Eighth Route Army, is receiving material support from the Soviet Government and is subservient to Stalin; his refusal to credit the Communists with any important betterment of the condition of the people in the areas they control; his statement

¹ Not printed.

that a "constitutional assembly" would be held within a few months for the ostensible purpose of creating a democratic form of government, but really to execute a prepared program; and his confidence that while the Communists constituted a threat to the power of the Chinese Government, the Government could remove this danger when hostilities with Japan were ended.

In spite of the cynicism tingeing Mr. Peng's observations, his belief regarding the subservience of the Chinese Communist Party to Moscow is so commonly expressed that one must credit many officials of the National Government with genuinely sharing his opinion and with having, from their standpoint, adequate reason for suspicion of the Communist Party. Nor can one quarrel with Mr. Peng's idea that the mass of the Chinese people are not qualified to conduct a "democratic form of government", if by that is meant a government of popular franchise on the Anglo-Saxon plan. What Mao Tse-tung seemed to have in mind was something more in the nature of local self-government. It is disquieting to observe that Mr. Peng seemed to foresee forcible removal of the Communist "threat" after hostilities should have been concluded. It would be difficult to imagine anything that would be more calculated to alienate foreign opinion from the Chinese Government than would recrudescence of internecine warfare in China, especially if it were between the Government and the force made popular in the United States by Mr. Edgar Snow's book, *Red Star Over China*.

Mr. Weil likewise spoke on the subject with General Chu Shih-ming, Director of the Department of Intelligence and Publicity of the Foreign Office. A memorandum of the conversation is enclosed.² (In this connection it should be pointed out that Mr. Weil was subsequently informed by Dr. Hsu Mo, Vice-Minister for Foreign Affairs, that the issue of the paper publishing the Mao Tse-tung interview was suppressed, not on account of the interview, but on account of an editorial that was held to reveal political secrets.) It will be observed that General Chu was even more emphatic in his assertion that the Government would deal with the Communist threat through force than Mr. Peng was. Mr. Weil is inclined to think, however, that this emphasis on the ability of the Government to suppress the Communists by forcible means may be in part a reflection of a supposition on the part of the Chinese speakers that Americans are strongly opposed to all persons labeled as "Communists" and would view with disfavor any apparent surrender to them by the Government.

In the course of preparation of this despatch, which has been much delayed by press of routine, Mr. Weil prepared a memorandum dated

² Dated October 24; not printed.

November 9, giving the gist of interesting conversations with other persons on the subject of the Eighth Route Army. A copy is enclosed.⁴

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94/15450 : Telegram

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

TOKYO, November 1, 1939—7 p. m.

[Received November 1—12:54 p. m.]

567. 1. The meeting now taking place of the Prime Minister and Foreign, War, Navy and Finance Ministers acting as president and vice presidents of the Asia Board and General Yanagawa, director general of the board, has been called for the purpose of formulating "specific plans for the settlement of the China incident". The press anticipates that the Asia Board will reaffirm previous Japanese declarations with regard to the general principles of policy, notably the Konoye statement of December 22, 1938,⁵ namely:

- (a) recognition by China of Manchukuo,
- (b) anti-Comintern agreement among Japan, China and Manchukuo which would provide for the continued stationing of Japanese troops in certain parts of China and the designation of Inner Mongolia and North China as "special [anti-Communist] areas";
- (c) economic cooperation among the three countries which would include right of Japanese to reside and carry on trade freely in China.

2. The press hints very broadly nevertheless that the meeting today may not be productive of a complete program of both policy and action. So far as we can learn the Japanese are still as far as they have ever been from devising guarantees for the carrying out of the above listed peace terms which would be compatible with the demands of Chinese with any claim to respectability. The suggestion frequently made in various telegrams from Peiping and elsewhere in China that there are divided counsels among the Japanese military leaders in China with regard to the questions whether Wang Ching Wei should be set up as the head of a central government and whether the present Nanking and Peiping regimes should be continued is fully borne out by information recently obtained from an entirely reliable Japanese source.

3. According to our informant, the questions immediately above presented arose in a somewhat different form as early as the autumn

⁴ Not printed.

⁵ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 482.

of 1937 when the attack on Nanking from Shanghai was decided on by General Matsui. General Yanagawa, above mentioned, who commanded the detachment which landed at Hangchow Bay and later commanded the army which advanced along the south bank of the Yangtze, contended that Japan could not conquer and destroy Central China; he believed that the Nanking campaign was a mistake but urged that when Nanking was captured it should be reduced to ashes and the army withdrawn to Shanghai and later evacuated.

In his view not only did Japan's future lie in North China, in which area she could safely entrench herself, but the occupation as well of the Yangtze basin and South China would be beyond the capacity of Japan to maintain for an indefinite period.

4. The question whether there should be set up a new central Chinese Government and the Peiping and Nanking local regimes suppressed thus stems out of the older problem above described. There is and has been much talk, of course, of setting up a strong and completely independent new government in China. If this were the prevailing thought there should have been no such delay as there has been in establishing the much talked of new Government under Wang Ching Wei. We incline very strongly therefore to accept as substantially true the statement of our informant that the repeated postponements in the creation of such new government, which would be headed by Wang or some other person, is due primarily to the inability of the Japanese to agree among themselves upon the area over which Japan is able to exercise overlordship. There is obviously some disagreement among the Japanese with regard to the acceptability of Wang, his determination to retain a large measure of independence from Japanese control and his desire to remove restrictions on Americans and other foreign rights being irreconcilable with extremist concepts of the "new order", but this matter is secondary both in importance and in time.

5. Discussions in the press are of course couched in the most guarded language but when read in the light of the foregoing information they strongly suggest that the Asia Board will forthwith reaffirm the Kono statement and will agree upon the establishment of a Central Government under Wang, but that it will have difficulty and need more time in reaching any decision with regard to the extension by such government of *de facto* authority over North China and to the character of the assistance which Japan will bind itself to give to that government in areas outside North China.

Repeated to Peiping, Peiping please repeat to Chungking.

GREW

793.94/15461 : Telegram

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

SHANGHAI, November 2, 1939—3 p. m.

[Received November 3—7:02 a. m.]

965. Reference Department's No. 203, October 21, 2 p. m., to Chungking.⁶

1. Viewing the situation from this post in Japanese occupied China there seems no prospect of any early definitive settlement of the China incident. There are no indications here of any modification of Japanese objectives or policy in China. Japan's major military effort was considered as substantially completed with the occupation of Hankow and Canton. Recent Japanese military reverses in China are not regarded by military observers here as of major importance. Guerrilla tactics by Communists and other forces in Shansi and the north appear to have been successful, but in Central China the sporadic guerrilla activities while disconcerting have brought no important results.

2. Sober Japanese opinion maintains that the project for a "recognized" Central Government regime will mature in the very near future, thus freeing Japan to deal more readily with any situation or opportunities that may develop out of the European conflict and at the same time establishing a means to "legalize" the dominant economic position into which Japan has thrust herself in occupied China through the introduction of an economy fashioned on the Manchurian pattern gradually extending through North China into Central China with Chinese and third power interests generally immobilized during the process of penetration and consolidation by restrictive measures imposed under the guise of military necessity.

3. Japan has approached the currency problem more cautiously here than in the north, but the ground work has been laid for opportune development. Through the Central China Development Company Japan holds substantial monopoly control of inland navigation, rail and other transportation, public utilities, telecommunications, fisheries, salt, coal, iron, silk, cotton and other raw materials. Lack of capital has restricted any rapid development but confiscatory methods have established Japan in control of existing substantial and profitable activities.

4. With the husbanding of material and men by avoidance of further large scale military operations, and with monopoly control of profitable enterprises and the accumulation of revenues from tax sources, it is believed here that the drain of the China incident on the resources and reserves of Japan has to a certain extent been moderated.

⁶ Not printed.

Customs revenue balances in Japanese banks on September 30 totaled 330 million dollars. Approximately 85 per cent of the customs revenue is collected in Japanese occupied ports. While official information is not available, it is believed that receipts from salt revenue and consolidated and other taxes in occupied China must reach a very substantial total. One cannot doubt that these revenues are availed of to support the Japanese occupation. Foreign and domestic obligations secured on these revenues are not being serviced.

5. Observers here, while remarking on China's continued resistance and united front, fail to find any evidence of a substantial strengthening of the Chinese position. With heavily reduced revenues and difficult trade channels, China's resources cannot be improving and her reserves must be dwindling.

With the European conflict, it would appear that Britain and France are lost to China as possible sources of loans, credits and supplies. Soviet assistance apparently can only be had at a substantial price. There are persistent reports here of increasing activity by the Communists for greater influence in the Government; also reports of friction between communist and National Government forces in the field. Foreign observers also commented that young Chinese seeking to serve China against Japan are preferably directing their steps toward the communist camps.

Repeated to Chungking and Peiping. Code text by air mail to Tokyo. GAUSS

793.94119/609 : Telegram

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

PARIS, November 9, 1939—6 p. m.
[Received November 9—2:52 p. m.]

2706. My No. 2534, October 25 [20], 5 p. m. Li Yu-ying called on me this morning and stated that he had just received a personal message from Chiang Kai-shek informing him that there was absolutely no truth in the report that Germany had made any attempt to bring about peace between Japan and China. BULLITT

893.0146/753

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the Counselor of the British Embassy (Mallet)

[WASHINGTON,] November 10, 1939.

Mr. Mallet telephoned and referred to the *aide-mémoire* which he left with me on October 30 in regard to the decision reached by the

British Government in reference to British armed forces stationed at Peiping and at Tientsin. Mr. Mallet said that the British Embassy had now received instructions to inform us that the British Ambassador at Tokyo had been instructed, after concerting his action with that of his French colleague, to inform the Japanese Government orally that the British Government had decided, because of the requirements of the European situation, to effect a temporary modification in regard to British troops stationed at Peiping and at Tientsin, under which modification certain of the British forces would be withdrawn and the number stationed at Peiping and at Tientsin would be reduced.

Mr. Mallet said that the British Ambassador at Tokyo was being instructed to inform the American Ambassador there and the British Commandant at Tientsin was being instructed to inform the American Commandant at that place.

Mr. Mallet said that the British Government must ask that we regard this information as confidential until publicity should be given to it in London.

I asked Mr. Mallet whether he would be so good as to send us an informal memorandum containing the information which he had communicated to me by telephone. Mr. Mallet said that he would do this.⁷

M[AXWELL] M. H[AMILTON]

793.94/15519

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

No. 375

CHUNGKING, November 10, 1939.

[Received December 2.]

SIR: I have the honor to refer to a telegram dated November 2, 1939, from the American Consul General at Shanghai⁸ expressing the general view that the Japanese are succeeding in building a solid economic foundation to support their military and political invasion of China.

The Embassy had observed what appeared to be considerable quantities of Japanese cloth in Chungking shops and on November 9 confidentially discussed with a prominent official of the Chinese Government the question of trade interchange between "occupied" and "unoccupied" areas.

The informant said that members of the Government had earnestly canvassed the question whether the importation of Japanese goods needed by the population, which needs the new industrial set-up in

⁷ Memorandum not printed.

⁸ Telegram No. 965, p. 312.

west China cannot yet supply, was of greater advantage to the Japanese or to the Chinese. A similar question arose in regard to exports; for example, many farmers in north China had become accustomed to raise cotton for sale and had become habituated to a money farm economy. It was difficult for the Government to persuade such farmers to return to subsistence farming, since there were many needed articles which their farms could not produce.

The informant clearly recognized the existence of arguments both pro and con trade interchange between "free" and "occupied" areas, with respect to its effect on the outcome of the hostilities, but avoided any expression of personal opinion. He implied that the policy of the Government was to keep alive the theoretical strict embargo on such trade, but in practice to wink at it when the welfare of the Chinese population in unoccupied areas was deeply involved.

Assuming, as the telegram in reference assumes, that the creation of a self-sustaining economic structure in Japanese-controlled areas in China will assist the Japanese invasion, I am inclined to think that this gradual economic entrenchment by the Japanese in the regions occupied by them will be more difficult for the Chinese to combat than the extension of military control.

It is understood, however, that some persons insist that the racial and sentimental urge of the Chinese population to resist Japanese domination will prove stronger than the impulse to accept economic benefits at their hands, at the cost of submission. This is merely another phase of a conflict whose outcome cannot be predicted with any confidence. Looking at the matter from the standpoint of American interests it may, however, be safely asserted that markets and sources of supply of Chinese raw materials and products thus gained by the Japanese they will attempt to control strictly to their own exclusive advantage.

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94119/610: Telegram

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

TOKYO, November 11, 1939—5 p. m.
[Received November 11—7:37 a. m.]

594. The Minister of War, General Hata, gave a long interview to the press yesterday on his way to western Japan, the significant portions of which are reported by the *Asahi* to have been as follows:*

"The settlement of the China incident is being undertaken under extremely complicated circumstances, brought about by developments

* Omissions indicated in the original.

in the international situation. . . . Irrespective of public opinion, the Army is determined to assume full responsibility for the settlement of the incident. . . . There is no need to alter the fundamental policy, decided at the Imperial Council, for the disposal of the incident. At the special meeting of the Asia Promotion Board on November 1 the attitude to be adopted by the Japanese Government toward the new central regime to be established in China was discussed and decided. This decision may in the future be referred to the Cabinet, but I don't believe there is any need for haste. The movement among patriotic and intelligent Chinese for the establishment of a new regime is progressing favorably despite the machinations of the enemy. . . . In every particular, the hasty conclusion must not be drawn that the China affair will automatically be settled with the establishment of the new regime. The Japanese people must clearly recognize the distinction between cooperation with the new regime and the establishment of a new order in East Asia. The restoration of peace and the establishment of the new order will depend on the strength of the Japanese Empire alone. . . . The fact cannot be disputed that our hypothetical enemies have grown more numerous. In order to be fully prepared for all emergencies Japan must put forth every effort to expand its armaments. It is clear that in view of the situation created by the Manchurian and Chinese incidents more emphasis than ever must be laid on shifting the center of national defense to the continent. . . . The problem of foodstuffs is of special concern to the army as it is a matter of life and death for the people and it affects directly the morale of the men at the front. . . . We believe that the food situation is being successfully coped with. . . . However, as a basic counter-measure steps should be taken at once to establish a permanent policy of consolidation between Japan, China and Manchukuo."

Copies by airmail to Shanghai, Peiping; Shanghai requested to repeat to Chungking via naval radio.

GREW

793.94/15520

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

No. 377

CHUNGKING, November 11, 1939.

[Received December 2.]

SIR: I have the honor to state that in view of my impending departure from Chungking on a tour to port cities and to Peiping I called yesterday on Dr. Wang Chung-hui, Minister for Foreign Affairs, in order to inquire whether there were any observations he wished to make to me in regard to matters of mutual interest. Mr. Peck, Counsellor of the Embassy, accompanied me.

Dr. Wang stated that he had taken up several matters with Sir Archibald John Kerr Clark Kerr, the British Ambassador, on November 9, the day before he left Chungking for Shanghai. He wished to present the same list to me as matters in which the Chinese Govern-

ment was greatly interested. Dr. Wang then consulted a personal memorandum he had in his hand and apparently following a list of subjects detailed them to me with running comments and questions.

The Minister said that the Foreign Office had received information that the French Ambassador had received a request from the Japanese authorities that appointments of officers in the Chinese courts in the French Concession be sent to the so-called "Government" at Nanking for confirmation. The Chinese Government was apprehensive that if this requirement were met it might be the first step in compliance with the Japanese demand that the court be transferred to the authority of that organization, and that the same demand might be presented to the foreign governments concerned in connection with the courts in the International Settlement. The Chinese Government desired to state that it retained its authority over the courts in the French Concession and the International Settlement and expected that the foreign governments concerned would continue to recognize that authority. There ensued a discussion of the historical antecedents of these courts and I said that I would report to the Department of State Dr. Wang's observations.

The Minister then stated that another phase of Japanese aggression at Shanghai was to be found in the order reportedly issued by the Japanese within the last few days restricting the importation into Shanghai of Chinese national currency. The Chinese Government hoped that foreign governments would not accept any such restriction as applicable to their respective nationals. He understood that the Japanese were ruling that permits for importations of currency would have to be applied for from the puppet authorities, and he pointed out that if this ruling were obeyed there would be an implied recognition of such authorities.

Dr. Wang said that he had discussed with the British Ambassador the possibility of financial assistance from Great Britain to China and had been informed that this type of assistance was easily possible, and in a substantial amount, but that the relations between Japan and Great Britain were such that it would be difficult for the British Government to take the lead in extending it to the Chinese Government. The Ambassador said that if the United States were to take such action and were to inform the British Government of its decision, he thought that Great Britain would undoubtedly extend credits to China or otherwise assist it financially.

Finally, the Minister for Foreign Affairs inquired of me concerning the prospects of an embargo on trade between the United States and Japan after the termination of the present commercial treaty on January 26, 1940. He observed that his information was that four separate resolutions to this end had been introduced into Congress

and that Senator Pittman had announced his intention to introduce another in the Senate at an appropriate moment when Congress reconvened in January next. I replied that I could make no prediction regarding the action that might be taken by Congress, nor whether any action would be taken, but I said I felt it necessary to tell him that the people of the United States had a traditional dislike of embargoes on trade, dating from the early years of the 19th century, and I further observed that since trade was extremely fluid and always sought an outlet where profit was assured, it would be a task of extreme difficulty to enforce an embargo, if it were decreed.

Dr. Wang observed that with the advent of the European war and the removal of the prohibition of the supplying of munitions to the belligerents, the United States seemed to be in a position that would make cessation of all shipments to Japan of materials useful in war very easy, since not only were the European belligerents eager to acquire large quantities of munitions and materials of the sort described, but apparently the American Government was embarking on an expansion of armament that would likewise consume large quantities thus leaving a very small surplus for shipment to Japan, in any case; he had noticed that the American Government had created a "Government Priority Commission", whose duty it would be to see that Government's needs received prior consideration. In these circumstances the Chinese Government hoped that the American Government would find it possible to shut off all supplies to Japan and would also feel disposed to induce Great Britain and France to follow suit.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.0146/733 : Telegram

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

PARIS, November 14, 1939—6 p. m.

[Received 9 p. m.]

2750. Champetier de Ribes¹⁰ assured me today that the announcement of the withdrawal of French and British troops from Tientsin and other areas (see my No. 2738, November 13¹¹) had been made because the French and British were extremely anxious not to have any conflict with Japan at the present time. He assured me that neither the British nor the French were conducting any secret negotiations whatsoever with the Japanese. He stated flatly that there was no question at the present time of any agreement between Japan

¹⁰ French Under Secretary of State for Foreign Affairs.

¹¹ Not printed.

and France or England based on a French or British cooperation with Japan against either China or the Soviet Union.

In conclusion he stated that French and British policy in the Far East at the present time was based on a simple desire to remain on as good terms as possible with both China and Japan.

I asked the Minister what he thought of the remarks of Naggiar, French Ambassador in Moscow, (reported in my No. 2723 of November 10, 11 p. m.¹²). He said that he did not agree with Naggiar and did not believe that there were any serious negotiations in progress between the Soviet Union and Japan. He considered it out of the question for the Soviet Union and Japan to agree to divide China.

BULLITT

893.0146/742a : Telegram

The Acting Secretary of State to the Second Secretary of Embassy in China (Smyth), at Peiping

WASHINGTON, November 18, 1939—2 p. m.

259. In connection with the recent announcements of the British and French Governments that they intend to reduce their military forces stationed in north China, the Department requests that Peiping, Shanghai and Tientsin keep it currently informed of pertinent developments in this connection, especially in regard to numerical or other important changes affecting British and French forces in north China and at Shanghai.¹³

Sent to Peiping. Repeated to Chungking, Shanghai and Tientsin.

WELLES

761.94/1182

Memorandum by Mr. George Atcheson, Jr., of the Division of Far Eastern Affairs

[WASHINGTON,] November 20, 1939.

The possibility of a Soviet-Japanese *rapprochement* creates something of a dilemma for the United States because American policy toward Japan in relation to developments in China may tend to increase that possibility. As the hostilities in Europe are causing Japan to become more and more dependent economically upon the United States, economic action against Japan by this country such as the imposition of an embargo might be a determining factor in turning Japan to seek profitable relations with the Soviet Union.¹⁴

¹² *Ante*, p. 79.

¹³ Such information was promptly reported by telegram.

¹⁴ Marginal notation by the Adviser on Political Relations (Hornbeck): "Japan is already seeking them."

A dilemma has also been created for Japan in regard to this question because American policy in regard to and American support of China and Soviet support of China are obstacles in the way of Japan's resolving the conflict in China as speedily as possible in Japan's favor and because Japan's present international isolation makes it desirable, if not immediately necessary, to dispose of the "China incident" satisfactorily and without delay. If Japan could conciliate either the United States or Soviet Russia in such a way as to obtain the complaisance of one of those powers toward Japan's program in China, Japan's chances of quickly attaining Japanese objectives would be enhanced.

It is believed that, other things being equal, Japan would prefer conciliation with the United States to conciliation with Soviet Russia, as the latter alternative would involve greater risk of compromising Japan's national security and political ideology, and as Japan has an inherent distrust of Soviet Russia. On the other hand, if conciliation of the United States could not be brought about except by a radical modification of Japan's policy in regard to China, then Japan in its present temper would probably prefer to take its chances on endeavoring to buy Russian complaisance at a cheaper price.

Both the principles to which we are committed and practical considerations require that this Government continue its diplomatic defense of its rights and interests in China and not capitulate to Japanese aims in China. Our course in general is already charted and includes the possibility of influencing Japan toward a *rapprochement* with the Soviet Union. It would seem, therefore, that the best safeguard against unnecessarily increasing the possibility would be the transferring of emphasis in future discussions with the Japanese from our ideological opposition to the "new order in East Asia" and the placing of emphasis upon the profits deriving from friendship between this country and Japan.

The simple basis of our argument with Japan along this line would be that: friendship between the United States and Japan is traditional; the United States earnestly desires to maintain and continue that friendship to the mutual benefit of both nations; friendship is, however, a matter of give and take; Japan is destroying American trade in China and is interfering with and curtailing American rights; our friendship cannot continue in such circumstances which are so obviously not give and take when one party (Japan) seeks to profit from us with one hand and with the other to destroy our interests. In so doing we would (a) avoid giving to the Japanese conception of a "new order in East Asia" the direct challenge which would likely involve the "face" of the Japanese military and increase their determination to advance their program and (b) ostensibly concentrate

our differences with the Japanese on a practical question which they could more readily understand and in regard to which they would find difficulty in not accepting the reasonableness of our complaints.

793.94/15521

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] November 21, 1939.

The British Ambassador called to see me at his request. After discussing certain questions in connection with the Declaration of Panama, the Ambassador said he wished to drop for the moment his official character and speak to me very frankly about a matter that was giving him great concern. He stated that the way things were now going in the Far East, it seemed to him evident that the maintenance of western interests in the Far East would be dependent entirely upon the determination which the United States might make. He said that if the Japanese Government determined to wipe out British and French interests in China, or even to take over their colonial possessions, neither the British nor the French governments under present conditions could weaken their naval forces in the Atlantic or in the North Sea, or, for that matter, in the Mediterranean because of their uncertainty as to the course which Mussolini would pursue. He said that for this reason it was clearly in the interest of Great Britain to attempt to reach an understanding with the Government of Japan which would obviate this danger and that he was fearful lest there be a recurrence of the 1931 situation as a result of which American public opinion would believe and maintain that Great Britain had sold out and had left the United States "holding the bag". He was very much concerned lest any negotiations undertaken between Great Britain and Japan under present conditions should be regarded by the American public as a deal against the interests of the United States and as a cynical and callous selling-out of China.

The Ambassador went on to say that it seemed to him in the interest of the western powers, and particularly in the interest of the United States, for every effort to be made to further a direct understanding between China and Japan on a basis which would be fair and equitable to both sides, but with the realization on the part of both China and Japan that each side would have to make concessions. He inquired whether I shared his view.

I replied by saying that I would have to make very wide and ample reservations to the opinions expressed by the Ambassador. I said that in the first place I could not at this moment conceive that there was a real likelihood of a formal agreement being reached between the Soviet Government and Japan for the partitioning of China, and in

order to make it possible for Japan to undertake offensive measures against British and French possessions in the Far East or even against the Netherlands East Indies. I said that, of course, anything under present conditions was possible, but it seemed to me fantastic to believe that the Japanese Government, from its own selfish standpoint, would undertake an adventure of this character, knowing perfectly well that Russian policy in the Far East was inevitably antagonistic to Japanese policy and knowing equally well that no reliance could be placed by Japan upon any agreement which might be proffered by the Soviet Government. I said it seemed to me far more likely that Japan would consider it in her best interest to try and work out some basis of understanding with the United States and with Great Britain and France before she would give any serious consideration to Russian proposals.

With specific regard to the Ambassador's last statement, I said that I could only assume that when the Ambassador said that China must be made to realize that she would have to agree to concessions in undertaking to arrive at peace terms with Japan, the Ambassador had in mind concessions of a character which would grant to Japan some preferential interest in China, some form of economic or military domination in some part of China, and that if I had correctly understood his statement, I wanted to make it entirely clear that this Government did not share that view, nor could it proceed along any course which would be destined to further such an arrangement. I stated that the position of this Government in that regard had been made more than clear and had been reiterated. We could not agree to participate in any move which would be regarded by China and Japan as an exercise of influence or pressure on our part destined to bring China to relinquish in any measure whatever her complete exercise of sovereignty within her territory. Further than that, I said, any such arrangement as that would imply a willingness on our part to agree to some form of military or economic, preferential position for Japan in China; and our insistence upon the recognition of our legal and treaty rights in China and our insistence upon equality of opportunity for all nations in China was so well known as to require no further emphasis from myself at this point.

Of course, I said, I believed that the sooner peace between Japan and China could be restored, the better it would be for the interests of the United States, solely provided that the kind of peace which was brought about was a peace of the character I had indicated. I said that I had no reason to believe that the government of General Chiang had any intention at this stage of considering peace terms of a character other than that which I had indicated and, unfortunately, in so far as the Government of Japan was concerned, I had no reason to believe that the Government of Japan would agree

upon any peace terms similar to those which I had indicated. Consequently, it seemed to me that there was no ground for hope of peace unless the Government of the United States and certain other governments attempted to bring some pressure to bear upon China to make a peace which was neither equitable nor based upon the foundations I had outlined, and that, I said, I could assure the Ambassador with all positiveness the Government of the United States would not agree to do.

The Ambassador asked if my statement were to be interpreted as meaning that the Government of the United States, if an equitable and fair peace which was not in derogation of the sovereignty of China could be reached, would refuse to recognize the nominal independence of Manchukuo and Japanese domination of Manchuria.

I replied that the position of this Government on that question had been made plain not only by the preceding Administration, but by the present Administration, and that I saw no reason to suppose at this time that there would be any variation in the position taken. I reminded the Ambassador, however, of the statements contained in the communication addressed by this Government to the Government of Japan on December 31, 1938,¹⁵ in which it had been made clear that this Government believed that the course of negotiation with China and with all the powers directly concerned in China was open to the Government of Japan, and that this Government by no means assumed the position that any treaty was not susceptible of modification, provided such modification was obtained as a result of free negotiation between all concerned.

S[UMNER] W[ELLES]

793.94/15511 : Telegram

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

SHANGHAI, November 24, 1939—5 p. m.

[Received 10 p. m.]

1036. Department's 349, November 13, 8 p. m. to Tokyo.¹⁶ In exclusive interview granted November 20 to official German news agency and printed today Wang Ching-wei declared date of establishment new government could not be fixed because of elaboration acceptable peace conditions with Japanese Government requires considerable time, and agreement on peace conditions must antecede establishment new government. Wang said that if National Government continued to

¹⁵ For the note dated December 30, 1938 (delivered December 31), from the American Ambassador in Japan to the Japanese Minister for Foreign Affairs, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

¹⁶ *Ibid.*, vol. II, p. 34.

refuse to conclude peace with Japan evacuation Japanese troops from China could be effected only regionally, "as arranged last August with Japanese Supreme Command in South China". The new government at Nanking will claim title as the only national Chinese Government. Wang admitted great difficulties attend implementation his plans but hoped difficulties would be overcome in cooperation with Japan and an independent China be established.

Wang's Shanghai organ *Chung Hua Jih Pao* yesterday carried editorial asserting National Government reduced to status of local regime because of reliance on Russia, Britain and United States, and that new government in its relations with Japan must therefore be independent and self-governing. "The Central Government cannot be reorganized by Japan, and Chiang's government cannot be overthrown by Japan. The discarding of the Chiang regime and restoration of a Kuomintang Central Government are matters concerning the Chinese people and can only be dealt with by the determination and efforts of the Chinese people, at their own initiative. What we hope from Japan is that Japan will respect that determination and those efforts, and will assist the Chinese people in what they want to do, but will not order the Chinese people to act in any particular manner. Only a central government evolved through dependence upon the determination and efforts of the Chinese people, employing the determination and efforts of the Chinese people for its support, could bring about a general peace, whereupon the problem of the Chungking Government might also have a natural solution." Editorial observes that Anglo-French relationship is under British leadership and states: "Whether or not Japan can establish and maintain its position of leadership in eastern Asia depends upon whether or not it can handle matters of Sino-Japanese cooperation in the spirit of the Anglo-French cooperation". Editorial emphasizes that the granting to Japan of right to station troops "in the vicinity of Inner Mongolia and in North China" is only for the period of Japan's Anti-Comintern Pact and is not prejudicial to China's sovereignty; and "the completeness and autonomy of China's economy in the vicinity of Inner Mongolia and in North China in the same way does not permit of the slightest infraction". Apart from those two areas, the editorial concludes, there is only one question of withdrawal of Japanese troops and no question of the stationing of troops.

The above quoted Wang Ching-wei organ has lately been increasingly independent in tone, for which two theories are advanced: (1) judging the development of the international situation to be unfavorable to Japan, Wang has adopted a stronger and more independent attitude vis-à-vis the Japanese; or (2) Wang is acting in accordance with Japanese policy, the Japanese desiring that it appear that Wang is functioning on his own responsibility.

It is contended in some quarters that Wang possesses a promise from Konoye that Sino-Japanese relations shall be based upon Konoye's offer of December, 1938, and that Wang is holding out for such conditions which if implemented would appear to leave China with its sovereignty only slightly impaired. It is doubtful whether Wang desires to go down in Chinese history as a "puppet", and publicity from his camp would indicate further that he believes Japan to be facing a strong combination in Russian, British and American policies and chooses therefore to fight along patriotic lines for an independent China.

It is conceivable that there is a relationship between Japanese pronouncements and Wang's publicity but it is possible that it is realized in some Japanese quarters, at least, that the establishment of another controlled government could scarcely be expected to contribute substantially to the establishment of a new order in East Asia. If the latter hypothesis is true it would follow that Japan might feel the necessity of making additional concessions to the Wang regime, at least on the surface, for the furthering of Japanese policies in Asia.

Despatch follows.

Repeated to Peiping, Chungking. Code text by air mail to Tokyo.

LOCKHART

793.94/15514 : Telegram

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

TOKYO, November 27, 1939—5 p. m.
[Received November 27—8:09 a. m.]

628. 1. The Prime Minister delivered an address Saturday night November 25 at Osaka, various reports of which have appeared in the Tokyo press.

2. According to the *Hochi*, the Prime Minister stated that it was a mistake to assume that the establishment of a central regime in China, the subjugation of the Chiang Kai-shek government and the withdrawal of Japanese forces from China would bring the China incident to an end. Estimating the strength of the Chungking army at 1,850,000 effectives exclusive of guerrilla bands, the Prime Minister is reported to have said that until these armed forces are exterminated the elimination of the Chiang regime and the establishment of a new Central Government would be meaningless. He added that the settlement of the economic questions might require 3, 5 or even 10 weeks after the actual hostilities had ceased.

3. According to the *Nichi Nichi*, the Prime Minister referred in the same address to Japan's foreign relations in part as follows:

"I am of the opinion that it is dangerous for any country to rely upon any other single country in an attempt to defy third countries. It is my conviction that diplomatic dealings must be carried on openly and honestly. If Great Britain should proffer the hand of friendship to Japan, Japan need not disdain it. The same holds true of any offer from the United States. However, Japan need not take the initiative in extending its hand to these countries. Diplomatic efforts will be continued along the lines of its 'independent policy'."

By air mail to Shanghai and Peiping. Shanghai please repeat to Chungking by naval radio.

GREW

793.94/15517 : Telegram

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

CHUNGKING, November 29, 1939—9 a. m.
[Received November 29—4:27 a. m.]

614. Leaders of the Chinese Government show little sign of discouragement because of the loss of Nanning and closing of motor road on the 24th. They have always admitted the inability of Chinese forces because of insufficiency of mechanized equipment including airplanes to withstand large scale attacks when the enemy can utilize such devices but seem confident that the lost ground can be recovered and the road opened again in say 3 or 4 months. They do feel some anxiety however lest increased ability of the Japanese to force their threats against Lung Yun, the Yunnan leader, may lead him to interpose obstacles to the use of the remaining southwest transportation routes although against his own inclination. The Embassy has been told in reply to questions that National Government troops did not assist in the defense of Nanning because the Kwangsi authorities did not desire such forces to enter the province but that the Government will send its own forces to attempt recapture.

Repeated to Peiping, Shanghai, Chungking; text by air mail to Yunnanfu.

PECK

893.00/14477 : Telegram

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

CHUNGKING, November 29, 1939—noon.
[Received 5:01 p. m.]

615. Embassy's 611, November 25, 2 p. m.,¹⁷ rumored changes in Cabinet. As explained to the Embassy, when Chiang Kai Shek replaced Kung as President of the Executive Yuan (in order to consoli-

¹⁷ Not printed.

date closely the military and civil branches of the Government), all Cabinet officers submitted formal letters of resignation and all have been rejected. The Minister[s] of Foreign Affairs, War, and Communications are reported however genuinely to desire to resign, the first for health reasons and the others presumably because of criticisms. Apparently the replacement of Kung with Soong in the Ministry of Finance was the only change seriously considered by General Chiang. The weight of evidence is that Kung was retained in spite of ill health because Soong aspired to greater authority in the Government than Chiang wished to give him. Other changes may have been avoided in order to obviate possible inference that the loss of Nanning had occasioned them.

Repeated to Shanghai, Peiping. Shanghai please repeat this telegram and our 611, November 25, 2 p. m., to Tokyo.

PECK

793.94/15569

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

No. 399

CHUNGKING, December 8, 1939.

[Received January 2, 1940.]

Subject: French Attitude toward the Chinese-Japanese Hostilities.

SIR: I have the honor to refer to the Embassy's telegram No. 624, of December 3, 1939,¹⁸ summarizing remarks made by the French Ambassador to Major J. M. McHugh, U. S. M. C., Assistant Naval Attaché, on December 2, 1939, in regard to the subject indicated at the head of this despatch.

The conversation reported occurred at a luncheon at the French Embassy in Chungking and the participants were limited to M. Henri Cosme, French Ambassador, Major McHugh and Mr. Hollington K. Tong, who, in addition to being Vice Minister of the Central Publicity Board, is in constant and confidential communication with General and Madame Chiang Kai-shek. I was, myself, present at the luncheon, but knowing the long-established friendship between the Ambassador and Major McHugh I forebore to join the conversation, for fear that if the group became too large its intimate character might be destroyed.

I have the honor to enclose a clear account¹⁹ of what was said, prepared by Major McHugh. Although the memorandum will repay reading in its entirety, the Department's attention is invited to the following salient points: The attitude of the French Government toward the Chinese Government in its struggle with Japan is not lukewarm. The French Military Mission (whose departure was re-

¹⁸ *Post*, p. 766.

¹⁹ Memorandum dated December 3, not printed.

ported in Chungking's telegram No. 566, of October 23, 1939 ^{19a}) did not come to China under the sponsorship, nor even with the knowledge, of the French Government, but it was allowed to remain as a goodwill gesture and its members departed only because their services were required in France. The French authorities have not given any countenance to Japanese puppet regimes in northern and eastern China. The French Government follows closely the lead of the American Government. The real purpose of the Japanese thrust into Kwangsi Province in November was to intimidate the French authorities into closing the routes through Indochina over which the Chinese Government has been importing needed supplies. The French have been and are doing their best to increase the carrying-capacity of the Haiphong-Kunming Railway, but the Chinese have not even provided adequate guards for the portion in Chinese territory. The French authorities foresaw the Japanese invasion of Kwangsi, in an attempt to cut lines of communication, and warned the Chinese in advance; they even took active steps toward the creation of a new motor road from Haiphong to Laokay, where the railway crosses into Chinese territory. The Chinese, however, have not done their part toward improving and developing communication routes, nor toward preventing the cutting of existing routes. Mr. Tong assured the Ambassador that he need have no anxiety lest the Provincial authorities of Yunnan fail to cooperate with the National Government in keeping routes open through that province. The Ambassador found the morale of the Chinese Government even better than it was during the summer.

Major McHugh believes that there has been ground for reports of a lukewarm attitude toward the Chinese side of the present controversy and that the French are apprehensive of a Japanese attack on Indochina. Nevertheless, he believes that the French Ambassador was sincere in saying that he wished to assist the Chinese Government against Japan and he attributes this to the firm attitude taken by the American Government and to a conclusion on the part of the French that in the interest of Indochina and of relations between France and the United States it is desirable to stiffen Chinese resistance to Japan.

My observations in Indochina when on leave in September and October and other considerations cause me to concur in the opinion of Major McHugh. Although Major McHugh does not wish to commit himself on the subject, it seems probable to me that the French Ambassador made the remarks recorded in the enclosed memorandum at least partially in the expectation that they would become known to the American Government.

Respectfully yours,

For the Ambassador:
WILLYS R. PECK
Counselor of Embassy

^{19a} Not printed.

893.0146/759: Telegram

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

HANKOW, December 15, 1939—10 a. m.
 [Received December 16—5 a. m.]

278. Referring to my No. 276, December 13, 2 p. m.,²⁰ and previous concerning withdrawal of British and French gunboats from the Yangtze. British have ordered withdrawal of three further gunboats from Shanghai-Hankow section of the river, these including Hankow station ship H. M. S. *Peterel* which departs December 18 leaving U. S. S. *Guam* as only non-Japanese gunboat here.

Repeated to Peiping, Chungking, Shanghai.

SPIKER

793.94/15552: Telegram

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

PARIS, December 21, 1939—4 p. m.
 [Received 6:12 p. m.]

3018. The Chinese Ambassador to London called on me yesterday and returned this morning to leave with me an *aide-mémoire* which reads:

“The capture of the town of Nanning by the Japanese will have no important effect on the general Chinese military plan against Japanese aggression. Nevertheless the position of this town close to the frontier of Indo-China should retain the serious attention of the French Government. It is in the interest of Indo-China to see the Japanese Army thrown out of this region immediately.

The only means to arrive at this result is the following: Chinese troops must repulse the Japanese. To accomplish this result two suggestions have been made to the French authorities: (1) material aid insofar as possible, for example artillery and aviation preferably sent by way of Indo-China; (2) the immediate sending of a French military mission to China”.

Chauvel told me today that the Chinese Chargé d’Affaires in Paris had called on him and had made statements which were on all fours with those contained in the *aide-mémoire* quoted above. I asked Chauvel what was the meaning of these maneuvers. He said that since Wellington Koo²¹ was not in Paris the Chinese Ambassador in London was carrying on considerable diplomatic negotiations in Paris which undoubtedly explained his visit to me.

²⁰ This telegram reported the departure of a French gunboat (893.0146/758).

²¹ V. K. Wellington Koo, Chinese Ambassador in France, and Chinese representative at the Council of the League of Nations.

Chauvel showed me a telegram to the French Government from Chungking which stated that the troops of Chiang Kai Shek had advanced successfully against the Japanese and had naturally reached the suburbs of Nanning.

Chauvel said that he had also received a visit from Li Yu Ying.

Li Yu Ying had made the same statements to him that he had made to me, reported in my 2978, December 14, 8 p. m.²²

In reply he suggested to Li Yu Ying that the greatest aid that China could give to France today would be to furnish certain rare metals which were essential for France's war industry.

He had also taken the occasion to express the profound gratitude of the French Government to Chiang Kai Shek for his offer of assistance.

BULLETIN

CONTINUED INTEREST OF THE LEAGUE OF NATIONS IN EFFORTS
TO CHECK JAPANESE AGGRESSION IN CHINA²³

793.94/14615: Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, January 17, 1939—10 p. m.

[Received January 17—7:37 p. m.]

8. Wellington Koo²⁴ addressed the Council this afternoon and gave an optimistic picture of the military situation in China. He stressed the determination of China to continue resistance to Japan and described Japanese objectives as conquest of China, subjugation of Asia and finally domination of the world. He described Japanese overtures of peace such as those outlined by Konoye²⁵ as but sugar-coated and designed to give Japan sufficient pause to enable her not only to enjoy fruits of recent successes but to provide breathing space to prepare for further aggressions. Among other things he charged Japan was attempting to debauch Chinese people by all forms of drugs and vice and cited "impartial evidence" of American and European residents and tourists in China in support of his charges.

He described the deliberate attacks by Japan on foreign trade and investments in China and referred to repeated protests by Governments of the United States, Great Britain and France, quoting largely

²² Not printed.

²³ For previous correspondence, see *Foreign Relations*, 1938, vol. III, pp. 488 ff.

²⁴ V. K. Wellington Koo, Chinese Ambassador in France and Chinese representative at the Council of the League of Nations.

²⁵ Prince Fumimaro Konoye, Japanese Prime Minister; for his statement of December 22, 1938, see *Foreign Relations*, Japan, 1931-1941, vol. I, p. 482.

from the American note of December 31²⁶ and from the recent British note. He insisted that it has been clearly shown that unless the Chinese people remain masters of their own destiny it would be impossible to safeguard legitimate western rights and interests and that respect for China's sovereignty and maintenance of the open door are twin pillars of the Nine Power Treaty signed at Washington.²⁷ He quoted at length from the President's message to Congress of January 4²⁸ and said the President "has spoken with statesmanlike courage and farsightedness against international aggression and has proffered the cooperation of the American people in support of the cause of democracy and peace". Again quoting the President as saying that "there are measures short of war that are capable of exerting pressure against the aggressor" he asked for a boycott of Japanese goods and asked the Council to recommend an embargo on shipments to Japan of airplanes and petroleum. He also requested the Council to recommend member states to extend financial and economic assistance, and described as necessary an assurance for facilities of transit and transportation of Chinese war material. He concluded by asking that the Council institute a committee of coordination to produce the maximum effect of any measures taken by the governments of states whether members or nonmembers of the League, whether of assistance to China or of pressure against Japan. If a general committee was considered unfeasible for the moment then his friends would welcome a limited committee of coordination to be composed of the representatives of governments particularly interested in the Far East.

The Council decided to adjourn consideration of the request until a further meeting.

BUCKNELL

793.94/14622: Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, January 18, 1939—11 p. m.
[Received January 18—10:30 p. m.]

10. My telegram No. 8, January 17, 10 p. m. I was informed in strict confidence by a member of the Chinese delegation that the Chinese delegation presented the following draft resolution to a secret session of a Council Subcommittee this afternoon which consisted of France, Great Britain, Yugoslavia, U. S. S. R., [and] China, with Munters (Latvian) as President:

²⁶ Note No. 1153, dated December 30, 1938, delivered December 31; *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

²⁷ *Foreign Relations, 1922*, vol. I, p. 276.

²⁸ *Congressional Record*, vol. 84, pt. 1, p. 74.

“Part I. The Council,

Referring to its report adopted on September 30, 1938,²⁹ relating to the appeal of the Chinese Government;

Recalling the terms of the resolutions adopted by the Assembly on October 6, 1937³⁰ and by the Council on February 2³¹ and on May 14, 1938,³² notably those of the Assembly resolution of October 6, 1937 which expresses its moral support for China, and recommends that members of the League should refrain from taking any action which might have the effect of weakening China's power of resistance and thus of increasing her difficulties in the present conflict, and should also consider how far they can individually extend aid to China;

Having heard the statement of the Chinese representative in regard to the present situation in the Far East, and outlining certain proposals of the Chinese Government;

Taking note of the fact that a number of states have been taking individual action in aiding China;

Invites the member states, particularly those directly concerned in the Far East, to institute a committee for the study and coordination of effective measures respectively of aid to China and of pressure against the aggressor, including the following:

1. Economic and financial assistance to China for certain purposes including the development of the Southwestern Provinces of China and the relief of Chinese refugees;
2. Removal of restrictions prejudicial to the transport and transit of arms, munitions, or other war materials destined for China;
3. Embargo on arms, munitions, aeroplanes, petroleum, iron and other materials essential for Japanese war purposes; and
4. Prohibiting of the importation of goods or products of Japanese origin or manufacture.

Part II. The Council,

Recalling the terms and principles of the Nine Power Treaty and of other international agreements to which a number of states, including China and Japan, are parties;

Reaffirming the principle of the sanctity of treaties;

Taking note of the statement of the Chinese representative in which he referred to the American note of December 31, 1938, and the British note of January 14, 1939, which the two Governments respectively addressed to the Japanese Government:

(a) Repudiating Japan's claim to establish a “new order” in the Far East;

(b) Confirming the fact that the Nine Power Treaty constitutes “an arrangement for safeguarding, for the benefit of all, the correlated principles on the one hand of national integrity and on the other hand of equality of economic opportunity”;

²⁹ See telegram No. 259, September 30, 1938, 11 p. m., from the Consul at Geneva, *Foreign Relations*, 1938, vol. III, p. 517; for text of report, see League of Nations, *Official Journal*, November 1938, p. 878.

³⁰ See *Foreign Relations*, Japan, 1931-1941, vol. I, pp. 384 and 394.

³¹ See telegram No. 38, February 2, 1938, 4 p. m., from the Consul at Geneva, *Foreign Relations*, 1938, vol. III, p. 503.

³² See telegram No. 95, May 14, 1938, 10 p. m., from the Consul at Geneva, *ibid.*, p. 505.

(c) Stating the intention "to adhere to the principles of the Nine Power Treaty":

Declares that the claims of the Japanese Government to establish a new order in the Far East prejudicial to the national sovereignty and territorial integrity of China and to the equality of opportunity of all nations in commerce and industry are incompatible with the principles of the Nine Power Treaty of Washington and other international instruments to which Japan is a party, and also detrimental to the general interests of peace."

My informant stated that British and French opposed part I of the draft, particularly proposal for committee, and points 3 and 4. They appeared, however, prepared to accept a reiteration of the recommendation of the Council of February 2, 1938, with the omission, however, of any reference to "consulting with other similarly interested powers."

British and French also rewriting part II as a whole. They specifically objected to reference to American and British notes on grounds that this would embarrass American Government and might prejudice current diplomatic negotiations (French note to Japan was said to be on its way).

Subcommittee meets tomorrow at 3 o'clock further to consider the entire matter.

BUCKNELL

793.94/14623 : Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, January 19, 1939—6 p. m.

[Received January 19—5 p. m.]

11. My telegram No. 10, January 18, 11 p. m. A member of the Chinese delegation has informed me in strict confidence that the Council Subcommittee adopted the following resolution in secret session this afternoon :

"The Council,

Referring to its report adopted on September 30, 1938, relating to the appeal of the Chinese Government;

Recalling the resolutions adopted by the Assembly of October 6, 1937, and by the Council of February 2 and of May 14, 1938;

Recalling notably the terms of the Assembly resolution of October 6, 1937, which expresses its moral support for China, and recommends that members of the League should refrain from taking any action which might have the effect of weakening China's power of resistance and thus of increasing her difficulties in the present conflict, and should also consider how far they can individually extend aid to China; and the terms of the resolution of February 2, 1938, which expresses the Council's confidence that those states represented on

the Council for whom the situation is of special interest will lose no opportunity of examining, in consultation with other similarly interested powers, the feasibility of any further steps which may contribute to a just settlement of the conflict in the Far East;

Having heard the statement of the Chinese representative in regard to the present situation in the Far East in which he rejected Japanese pretensions to the establishment of a new order in Eastern Asia, and outlined certain proposals of the Chinese Government;

Taking note of the fact that a number of states have been taking individual action in aiding China;

Invites the member states, particularly those directly concerned in the Far East, in consultation with other similarly interested powers should this appear appropriate, to examine the proposals made in the statement of the representative of China before the Council on January 17th 1939, for the taking of effective measures, especially measures of aid to China".

This resolution will probably be presented to a full meeting of the Council tomorrow morning.

My informant stated that in the last paragraph in the reference to consultation the phrase "should this appear appropriate" was designed to avoid any embarrassment to the American Government. A member of the Yugoslav delegation in speaking of the meeting this afternoon said that the revision of the original draft resolution had been accomplished in order not to prejudice "current diplomatic negotiations between Great Britain, France and the United States".

BUCKNELL

793.94/14629: Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, January 20, 1939—4 p. m.
[Received January 20—1:30 p. m.]

13. My telegram No. 11, January 19, 6 p. m. The Council in public session today adopted the draft resolution concerning the Chinese appeal with a few unimportant changes in phrasing.

New Zealand representative while regretting the weakness of the draft resolution accepted it since it was at least a slight advance on previous resolutions.

Russian delegate associated himself with the request made by China; reaffirmed the readiness of his Government to participate in any measures taken by the League to assure the collective security which had been so much disparaged and said that the draft resolution while it did not go far enough, nevertheless, presented a certain amount of progress.

British representative expressed his sympathy for the sufferings of the Chinese people and said that the British Government desired to come to the aid of the Chinese Government to the greatest possible

extent. Since last September his Government had been studying sympathetically certain requests from China for economic assistance and there was a prospect of some satisfaction being given to China. He hoped that peace and order would be restored in China and his Government would neglect no opportunity of collaborating to this end.

Wellington Koo thanked the members of the Council for their expressions of sympathy to his country; said that it was not necessary again to stress the fact that a scrupulous respect for treaty obligations and the observance of good faith are recognized as fundamental principles in international relations; stated that the Japanese attempt to nullify principles of the Nine Power Treaty has just been met with the stern disapproval of the three Governments directly interested in the Far East as well as with China's determined rejection and resistance and that the Council would have been well within its competence if it had availed itself of the opportunity to pronounce once more against such unwarranted action on the part of Japan. His Government earnestly hoped that the requests presented by him last Tuesday³³ will in conformity with the resolutions before the Council be sympathetically examined and promptly given a satisfactory response. Saying that his acceptance of the resolution was subject to the reservation that the Council remains seized of the appeal of the Chinese Government, he said:

"It must be clear by now after a year and a half of China's determined resistance with its untold sufferings and sacrifices for the Chinese people that the victory of the Chinese cause will mean at once the salvage of the rights and interests of the countries directly concerned in the Far East on the one hand and on the other the vindication of the principles of security in peace and progress in order in the world."

BUCKNELL

793.94 Advisory Committee/152: Telegram

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] May 1, 1939.

The papers here attached³⁴ were handed to me by the Chinese Ambassador³⁵ this afternoon.

The Ambassador said that he was giving me this informally in order to inform us of action which the Chinese Government is contemplating taking at the May session of the Council of the League of Nations. He said that he realized that the hope expressed that the American Government will associate itself with the League in adopting "similar

³³ January 17.

³⁴ *Infra.*

³⁵ Hu Shih.

measures" and will join Great Britain, France and the Soviet Union in making a joint or parallel declaration reaffirming points specified is an expression of wish rather than of expectation. He hoped, however, that the American Government would move in the general direction contemplated and suggested to the powers in the Chinese Government's outline and expression of request and hope.

S[TANLEY] K. H[ORNBECK]

793.94 Advisory Committee/152

*The Chinese Embassy to the Department of State*³⁶

It is the intention of the Chinese Government to request the Council of the League at its May session, to take steps to institute a Coordination Committee or a more limited committee composed of representatives of Governments particularly interested in the Far East to take effective action in order to restrain Japanese aggression and to reaffirm the following requests previously made by the Chinese Government:

- (A) 1. To grant financial and economic assistance to China;
- 2. To refrain from taking any action which might have the effect of weakening China's power of resistance and thus of increasing her difficulties in the present conflict;
- 3. To assure full facilities of transit and transport for Chinese war materials;
- (B) 1. To prohibit directly or indirectly the imports from Japan;
- 2. To stop supplying Japan with war and raw materials, particularly airplanes, gasoline and scrap iron;
- 3. To take economic measures of retaliation against Japan.

The Chinese Government sincerely hopes that the American Government, devoted as she is to the cause of peace and international justice, will not only associate herself with the League in adopting similar measures but also join Great Britain, France and the Soviet in making a joint or parallel declaration reaffirming the following:

- 1. That the international order in the Far East must immediately be restored so that the general peace of the world will not be dangerously threatened;
- 2. That effective measures should be taken to put a stop to Japanese aggression;
- 3. That provisions of several binding international agreements relating to the Far East must be observed and can not be abrogated unilaterally; and
- 4. That all the treaty rights and vested interests of the foreign powers in China must be respected until they are lawfully modified.

³⁶ Handed by the Chinese Ambassador to the Adviser on Political Relations on May 1.

793.94 Advisory Committee/157

Memorandum by the Under Secretary of State (Welles)

[WASHINGTON,] May 20, 1939.

The British Ambassador ³⁷ called to see me late yesterday afternoon. He gave me to read an urgent telegram which he had just received from Lord Halifax ³⁸ which was along the following lines. Lord Halifax had been advised that the Chinese Government intended to propose at the meeting of the Council of the League at Geneva on May 22 a resolution for setting up a small committee of countries most interested in the Far East to coordinate measures of sanction against Japan under Article XVI of the Covenant.³⁹

Lord Halifax had been informed by certain leading members of the opposition in the House of Commons that they would probably raise the question in Commons of their well-founded belief that the Government of the United States would agree to participate in such a committee or at least to send an observer to attend the sessions of the committee. Lord Halifax stated that his own impressions did not coincide with these opinions which had been given him and he wished Sir Ronald Lindsay to inform him urgently what the attitude of this Government might be.

I said to Sir Ronald that so far as I was informed this Government had not been advised of any such intention on the part of the Chinese Government but that before making any reply to him I should wish to verify my impression on this point and also to consult with the Secretary of State. I said that my primary reaction was very definitely that this Government for many reasons would not at this time be prepared either to participate or to send an observer. I said that Sir Ronald knew of course what the situation was in the Congress with regard to the consideration of a revision of neutrality legislation and that it seemed to me altogether out of the question for this Government to take part in such a meeting as that apparently proposed which would give rise to every kind of conjecture with regard to foreign involvements on the part of this Administration, particularly when both Sir Ronald and I knew that none of the governments which would attend this meeting had the slightest intention of imposing sanctions. I told the Ambassador of the telegram which we had received from our Embassy at Tokyo ⁴⁰ informing us that Mr. Grew had advised the British Ambassador in Tokyo, Sir Robert Craigie, that he would refuse to recommend to his Government the joint approach to the Japanese Foreign Minister which Sir Robert Craigie had suggested

³⁷ Sir Ronald Lindsay.

³⁸ British Secretary of State for Foreign Affairs.

³⁹ *Foreign Relations*, The Paris Peace Conference, 1919, vol. XIII, pp. 69, 88.

⁴⁰ Telegram No. 53, January 31, 3 p. m., p. 497.

for the purpose of threatening the imposition of sanctions by the two Governments if Japan took any measure of force with regard to the International Settlement of Shanghai and that I heartily concurred in the views which Mr. Grew had expressed to Sir Robert Craigie. Sir Ronald Lindsay acquiesced warmly in this regard.

This morning, after consulting with the Secretary of State, I informed the British Ambassador that the reply of this Government to the message he had given me last night was as follows.

First. This Government would very definitely prefer not to have any requests made of it to participate in the meeting of the suggested committee or to send an observer to the sessions of such committee and that I hoped that the British Government would do what was necessary to see that no such request was sent to the Government of the United States either directly from London or from Geneva. I said that if such a request were made this Government would have to reply by stating that it must decline to participate or to send an observer.

Second. I said that as the Ambassador and his Government well knew this Government had consistently throughout the course of the recent hostilities in the Far East pursued an independent course although frequently taking action which was parallel to the action taken by other powers directly interested in the Far Eastern situation. I said that this Government would continue that policy and that the objectives proposed by the setting up of the suggested committee would therefore be out of keeping with our policy insofar as the question of coordination was concerned.

Third. I told the Ambassador that the Secretary of State felt that it would be useful if the British Government would influence the Chinese Government to refrain from making such a proposal in view of the fact that everyone was well aware that none of the governments "most interested in the Far East" were at this time prepared to impose any sanctions upon Japan and there seemed to be very little common sense in creating a committee to discuss measures which it was known in advance would not be undertaken.

S[UMNER] W[ELLES]

793.94 Advisory Committee/151: Telegram (part air)

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, May 20, 1939—11 a. m.

[Received May 22—6:43 a. m.]

137. Hoo⁴¹ informs me in confidence that at the coming Council China will adopt very much the same tactics as at the last Council meeting. She will attempt if possible to obtain a stronger resolu-

⁴¹ Victor Chitsai Hoo, Chinese Minister in Switzerland.

tion and the setting up of a small permanent committee along the same lines as envisaged formerly. He said that he was not sure how far the British and French would be willing to go to meet the Chinese requests since it now appeared that they were hopeful of detaching Japan from the Axis and appeared unwilling to do anything capable of offending that country. However should the setting up of a small permanent committee be possible the Chinese would welcome the presence of an American observer on this committee in the same way as was done in the Committee of Twenty-three⁴² which is still in existence although not in session.

BUCKNELL

793.94 Advisory Committee/153 : Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, May 22, 1939—11 p. m.

[Received May 22—9 p. m.]

144. In a public session of the Council this afternoon Koo made a statement concerning the Sino-Japanese conflict along the lines of the statement made at previous sessions laying particular emphasis on Japanese bombardment of Chinese civilian population. He concluded by requesting the Council to adopt the following proposals:

1. A recommendation to the member states to extend financial and material aid to China and assistance for Chinese refugees; to refrain from doing anything which may weaken China's powers of resistance; to withhold from Japan the supply of instruments of war and raw materials particularly airplanes and oil; and to restrict the importation of Japanese goods and adopt other measures of commercial retaliation against Japan's violation of the treaty rights of member states.

2. The setting up of a committee to coordinate the foregoing measures.

3. The further implementing of the Assembly and Council resolutions already adopted with a view to extending aid to China and restraining the aggressor.

In addition Koo requested the Council to take steps to constitute an international committee to inquire into the cases of bombardment of the civilian population and submit the report to the Council for consideration and study of measures designed to stop this crime.

He referred gratefully to American support of Chinese currency and to cooperation of American manufacturers in refraining from shipping planes to Japan in accordance with the "advice" of the American Government.⁴³

⁴² For the American position, see telegram No. 86, March 11, 1933, 8 p. m., to the Minister in Switzerland, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 117.

⁴³ See circular letter of July 1, 1933, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 201.

The British and French representatives maintained their previous position on similar Chinese proposals and while expressing great sympathy for China and asserting their intention to fulfill the obligations already assumed in previous League resolutions stated that they were not in a position in view of their grave responsibilities elsewhere to accept new commitments as regards China. The Russian representative supported the Chinese proposal saying,

"It is now being more and more universally recognized even by those who were previously skeptical that the only way to put an end to the further developments of lawlessness and chaos in international relations which in the end must inevitably lead to a general war spreading over all Europe and probably over the whole world is by firm resistance to aggression. From this it follows naturally that every victim of aggression should be rendered the maximum assistance and support it is possible to give. This is not only the attitude of my country but it is the growing conviction of other governments also."

He referred to recent statements of the British Prime Minister registering adherence to the principle of helping victims of aggression who are putting up an active resistance for their independence and said that this principle was fully applicable in the case of China and that the Chinese proposals should be given the maximum sympathetic consideration especially "by those powers which support the above principle." He then adjourned the discussion for further consultation with members of the Council.

BUCKNELL

793.94 Advisory Committee/151 : Telegram

The Secretary of State to the Consul at Geneva (Bucknell)

WASHINGTON, May 23, 1939—4 p. m.

57. Your 137, May 20, 11 a. m. For Harrison:⁴⁴ Please in your discretion and if need arises say to the Chinese orally and in confidence that, in view of the legislative situation here and the established attitude of this country toward the League, it is our estimate that discussion by League agencies of Far Eastern problems could be held more advantageously without there being raised and involved the question of the presence of an American observer than with the raising and involving of that question. You might point out that in our opinion the participation through the presence of an American observer at meetings of League committees for the purpose of considering Far Eastern problems has always, necessarily, been restricted and has led to the raising of hypothetical questions to which no answers could be given. We feel that, in connection with the proposals which

⁴⁴Leland Harrison, Minister in Switzerland.

the Chinese have made to the League at this time, it would be unwise to raise any question which might obscure the fact that responsibility for League action rests with the League and responsibility for any action which this country might take rests with this country.

HULL

793.94 Advisory Committee/156: Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, May 24, 1939—4 p. m.
[Received May 24—1:22 p. m.]

150. My telegram No. 146, May 23, 4 p. m.⁴⁵ The following is the resolution agreed to by the Drafting Committee this morning for presentation to the full Council:

I. The Council,

1. Referring to the resolution and reports hitherto adopted by the Assembly and the Council relating to the appeal of the Chinese Government;

2. Having heard the statement of the Chinese representative at the Council's meeting on May 22, 1939;

3. Continuing to view with great concern the grave situation in the Far East created by Japanese aggression;

4. Renewing its expression of profound sympathy with China in her heroic struggle for the maintenance of her independence and territorial integrity threatened by the Japanese invasion, and in the suffering which is hereby inflicted on her people;

5. Deeming it desirable that measures of aid to China, including relief measures and such measures as may from time to time be found practicable should be made as effective as possible;

6. Following with interest the growing solidarity of action on the part of several states directly concerned in dealing with recent developments in the Far East;

7. Noting with satisfaction that a number of states have taken certain measures in aiding China;

8. Expressing the hope that such measures will be continued and that the resolutions previously adopted by the Assembly and the Council will be further implemented;

9. Invites the members of the League particularly those directly concerned in the Far East, in consultation with the Far East Advisory Committee, to examine the possibilities of the practical application of the measures above referred to.

II. The Council,

1. Having regard to the resolution of the Assembly of September 28, 1937⁴⁶ solemnly condemning the aerial bombardment of open towns in China by aircraft;

⁴⁵ Not printed; it gave the text of draft resolution urged by the Chinese representative, similar to but somewhat stronger than text quoted in this telegram. The most important recommendation omitted in the revised draft provided that member states should refrain from supplying Japan with aircraft and petroleum (793.94 Advisory Committee/154).

⁴⁶ *Foreign Relations, Japan, 1931-1941, vol. I, p. 506.*

2. Taking note of the statement of the Chinese representative relating to the recent cases of ruthless attacks by Japanese aircraft on Chinese civilian populations resulting in an appalling loss of life;

3. Recalling the resolution adopted by the Assembly on September 30, 1938 by which the Assembly taking note of the Chinese Government's request for the despatch of an international committee to examine cases of the bombing from the air of civilian populations in China, recommends that the Council should take any such appeal into consideration;

4. Takes note with interest of the statement of the Chinese representative that a number of states members of the League or not have taken steps to discourage or prevent the supply of aircraft to Japan;

5. Invites the Governments of the states represented on the Council and on the Far East Advisory Committee having official representatives in China to inform themselves as fully as possible as to cases of bombing by Japanese aircraft of civilian populations in China and to furnish without delay to the Council information so obtained."

Maisky⁴⁷ proposed that full summaries of the reports received under the last paragraph be published by the League from time to time. This point has not yet been decided upon and the proposal will be placed before the Council for decision.

BUCKNELL

793.94 Advisory Committee/155: Telegram

The Minister in Switzerland (Harrison) to the Secretary of State

GENEVA, May 24, 1939—4 p. m.
[Received May 24—11:50 a. m.]

14. Consulate's No. 150, May 24, 4 p. m., your No. 57, May 23, 4 p. m. Since no new committees will be set up by the resolution I have refrained from taking any action in the matter.

HARRISON

793.94 Advisory Committee/158: Telegram

The Consul at Geneva (Bucknell) to the Secretary of State

GENEVA, May 27, 1939—4 p. m.
[Received May 27—10:50 a. m.]

157. The Council of the League of Nations in public session this morning adopted the resolution quoted in my telegram No. 150, May 24, 4 p. m. with only one minor and unimportant change in phrasing.

Koo in accepting the resolution did so with the reservation that the Council would remain seized of the Chinese appeal.

BUCKNELL

⁴⁷Ivan Mikhailovich Maisky, Soviet Ambassador to the United Kingdom, temporarily Soviet delegate to a meeting of the League of Nations.

793.94 Advisory Committee/169

Memorandum by Mr. Raymond C. Mackay, of the Division of Far Eastern Affairs, of a Conversation With the Counselor of the British Embassy (Mallet)

[WASHINGTON,] June 29, 1939.

Mr. Mallet called at the Department upon invitation and was received by Mr. Mackay.

Mr. Mackay referred to Mr. Mallet's call at the Department on June 19 at which time oral inquiry was made in regard to the "reaction" of the American Government to the invitation included in the resolution adopted on May 27, 1939, by the Council of the League of Nations, that governments represented on the Council and on the Far Eastern Advisory Committee furnish the Council with information in regard to the bombing by Japanese aircraft of civilian populations in China (see memorandum of conversation of June 19⁴⁸).

In response to Mr. Mallet's inquiry under reference Mr. Mackay stated that the Department has on numerous occasions announced publicly this country's unreserved condemnation of the bombing of civilian populations from the air; that in July of last year the Department expressed to manufacturers and exporters of airplanes and aeronautical equipment in this country its disapproval of the export of aeronautical supplies to countries the armed forces of which are engaged in the bombing of civilian populations from the air;⁴⁹ that American manufacturers and exporters of aeronautical supplies are cooperating fully; and that for the past six months no licenses for the export to Japan of arms, ammunition, or implements of war, including aircraft, have been applied for or issued.

Mr. Mackay also stated that the American Government has made repeated representations to the Japanese Government in regard to the aerial bombardment of American properties in China; that numerous public statements in regard to the subject have been issued by the Department; that the American press has with but few, if any, exceptions carried reports of bombings of American properties in China; and that, in view of the wide publicity which has been and is being given to the subject under discussion, the Department's initial reaction is doubt whether a useful purpose would be served by the Department's undertaking to transmit to the Council of the League of Nations such reports as may be received by it in regard to the bombing by Japanese aircraft of civilian populations in China.

Mr. Mallet indicated that he understood the situation thoroughly and that he was greatly obliged for the completeness of the reply made to his inquiry.

⁴⁸ Not printed.

⁴⁹ See letter from the Chief of the Office of Arms and Munitions Control, July 1, 1938, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 201.

793.94 Advisory Committee/170: Telegram

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

CHUNGKING, July 28, 1939—10 a. m.

[Received July 28—9:45 a. m.]

471. Following is Embassy's translation of note received from the Ministry of Foreign Affairs under date of July 26:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and, in relation to the indiscriminate bombing by Japanese planes of the civilian population of this country, has the honor to observe that the Council of the League of Nations passed at its one hundred and fifth session on May 27, 1939, a resolution of which the last paragraph reads:

'Invites the Governments of the states represented on the Council and on the Far East Advisory Committee having official representatives in China to inform themselves as fully as possible as to cases of bombing by Japanese aircraft of civilian populations in China and to furnish without delay to the Council information so obtained.'

The Ministry recalls that, although the United States is not a member of the League of Nations, it has sent officials to attend the various sessions of the Far East Advisory Committee as observers; and is of the opinion that the Government of the United States will surely not refrain from participation and cooperation as this matter concerns the joint united action of humanitarianism and joint adherence to the principles of aerial warfare contained in international law.

Now, the Council of the League of Nations will hold its next session at Geneva in the near future. The Ministry has the honor to enclose a copy of the resolution referred to above and to request that action be taken in the matter. The Ministry should be especially grateful for the information of the Embassy's action in the matter.

In relation to the facilitating of information on the above subject, the Chinese Government is naturally willing to accord such facilities as are needed."

Repeated to Peiping; Peiping mail to Tokyo.

JOHNSON

793.94 Advisory Committee/170: Telegram

*The Acting Secretary of State to the Ambassador in China (Johnson)*⁵⁰

WASHINGTON, August 4, 1939—7 p. m.

152. Your 471, July 28, 10 a. m.

1. If you deem it advisable that acknowledgment be made, please do so appropriately to the Ministry of Foreign Affairs, stating that, with reference to the Council's resolution of May 27, 1939, the Department has received a copy of this resolution and is giving careful

⁵⁰ The Ambassador's telegram No. 492, August 9, 11 a. m., reported oral delivery of the substance of this telegram to the Chinese Vice Minister for Foreign Affairs (793.94 Advisory Committee 171).

consideration, in the light of various factors involved, to the question of taking such action pursuant thereto as may be appropriate and practicable. Please add that, in this connection, the considerations set forth in the Foreign Ministry's note under acknowledgment will be kept in mind.

2. If the acknowledgment under reference is made, the Department suggests that in your discretion you offer orally, when a suitable opportunity presents itself, the following observations: The Department has on numerous occasions announced publicly this country's unreserved condemnation of the bombing of civilian populations from the air and in July of last year it expressed to manufacturers and exporters of airplanes and aeronautical equipment in this country its disapproval of the export of aeronautical supplies to countries the armed forces of which are engaged in such bombing; American manufacturers and exporters of aeronautical supplies are cooperating fully; the American Government has made repeated representations to the Japanese Government in regard to the aerial bombardment of American properties in China; the Department has issued numerous public statements in regard to the subject; and the American press has with but few if any exceptions carried reports of bombings of American properties in China.

3. For your confidential information, the Department has taken no action on the League communication under reference other than to make an acknowledgment thereof.

Sent to Chungking. Repeated to Peiping.

WELLES

898.50A/151

The Consul at Geneva (Everett) to the Secretary of State

No. 604 Political

GENEVA, August 4, 1939.

[Received August 16.]

SIR: I have the honor to enclose a copy of a memorandum⁵¹ prepared by the Industrial Cooperative Council of China which the Chinese Minister to Switzerland, Dr. Victor Hoo, handed to Mr. Vincent⁵² during and incidental to a conversation yesterday in regard to general conditions in the Far East. Dr. Hoo explained that, whereas the Cooperative Council was not official and the memorandum contained private views, the Chinese Delegation to the League had undertaken to transmit it to the League Secretariat on behalf of the Cooperative Council.

The memorandum describes conditions in areas of China under the control of the Chinese Government and may be briefly summarized as

⁵¹ Not printed.

⁵² John Carter Vincent, Consul at Geneva.

follows: Whereas field crops have been excellent this year, manufactured goods are very scarce; 903 [90%] of China's factories have been bombed or taken over by the Japanese; machinery and means of transport are required to give employment to industrial refugees; Mr. W. K. H. Campbell (League expert)⁵³ has given advice and drawn up a constitution for the use of the industrial cooperatives; and the Chinese Government is allocating three million dollars for the use of the 800 cooperatives that have already been formed. Pointing out that inasmuch as "drugs and medical supplies are internationally recognized as necessities and as textiles are the most common of all manufactured goods and most necessary to the people," the Cooperative Council states that it "would like to ask the League of Nations to help in developing this part of the program" and expresses the hope that the next Assembly of the League will give favorable consideration to a request for half a million pounds.

Dr. Hoo expressed doubt that the League would grant the amount of money desired but said it was not unlikely that the League would furnish at its expense experts to advise and assist the Chinese in carrying on the work of the industrial cooperatives. He felt that there also existed some basis for hope that, if the League gave recognition to the industrial cooperatives in the manner anticipated, individual nations might be prompted to extend materials credits to China for reconstruction purposes in connection with the work of the cooperatives. Such credits, he pointed out, would not be open to possible objection or exception on grounds of affording political or military support to China and could be justified on humanitarian as well as commercial grounds.

With regard to action by China at the September session of the League Assembly, Dr. Hoo stated that the Chinese Delegation would of course again present the case of China and request assistance, but that he was not optimistic of favorable results. He said that the Chinese Delegation would probably utilise the action of the United States in serving notice of intention to terminate the 1911 Treaty of Commerce and Navigation with Japan⁵⁴ as an argument for action along similar lines by States Members of the League and as a basis for requesting financial and economic measures against Japan. Dr. Hoo remarked that far too frequently League members justified inaction with regard to China on grounds that the League was not in position to take action without American leadership or cooperation. In this general connection, he mentioned France particularly as being averse at this time to any positive move in the Far East because it

⁵³ British Technical Adviser to the Chinese Government.

⁵⁴ For correspondence concerning the termination of the Treaty of Commerce and Navigation of 1911, see pp. 558 ff.; for text of treaty, see *Foreign Relations*, 1911, p. 315.

felt that complications in that quarter might weaken the front against Hitler. France therefore made it a point to discourage a positive stand by the League or its ally, England, in the Far East and to encourage adjustment or temporary patching up by England of its difficulties with Japan. (Dr. Hoo cited no facts or circumstances in support of these opinions). It would be possible at the forthcoming session of the Assembly, Dr. Hoo continued, for the Chinese Delegation to cite the recent American action with regard to the 1911 Treaty as an indication that the United States was assuming a position of leadership in the Far East and to insist that it was incumbent upon the League Members to follow that leadership in such a measure and manner as might be practicable.

Dr. Hoo made the foregoing remarks at random and, whereas they would seem to indicate the lines along which the Chinese Delegation is thinking, they are not taken as indicating that China has a fixed plan at this date for approaching the Assembly in September.⁵⁵ It is, of course, possible that circumstances might arise during the next six weeks which would considerably modify the views expressed and the plan now envisaged by Dr. Hoo.

Respectfully yours,

CURTIS T. EVERETT

500.C112/1425

The Consul General at Geneva (Tittmann) to the Secretary of State

No. 41 Political

GENEVA, December 18, 1939.
[Received January 16, 1940.]

SIR: I have the honor to submit as a matter of record the following report of a declaration made by the Chinese delegate at a private meeting of the Council of the League of Nations on December 14:

Mr. Wellington Koo recalled that he had intended to make a declaration on the situation of his country. He had to call attention to the fact that the armed aggression against China, which had begun in 1931 and in 1937 had assumed the character of a war of invasion, continued to rage in all its brutality. The Council had dealt with the problem at each of its sessions during the last two and a half years. Since its last session, the fighting had withdrawn from the coastal regions towards the interior, thus favoring the Chinese resistance. The morale of the Japanese forces was not, moreover, any longer so high, and the Chinese armies had achieved real successes. Japan had also continued to prejudice foreign interests, to such an extent that the United States had been obliged to denounce their commercial treaty with that country. In order to defend the principles of civili-

⁵⁵ Because of the outbreak of war in Europe, sessions of the League Assembly were postponed.

zation, China would, as soon as a favorable moment arrived, ask the Council to take the necessary steps to adjust the situation. China considered, therefore, that the Council remained seized of the Chinese Government's appeal. The President of the Council, Mr. Costa du Rels (Bolivia), took note of the Chinese delegate's declaration.

As the Department was informed in the Consulate's telegram No. 324 of December 14, 9 p. m.,⁵⁶ the Chinese delegate, Mr. Wellington Koo, abstained from voting both in the Assembly and in the Council on the resolutions submitted in connection with the Finnish appeal.⁵⁷ In the Assembly Dr. Koo stated simply that "Under the circumstances which you all know, the Chinese delegation will abstain from taking part in the vote and in any phase of the report." In a subsequent Council meeting he reaffirmed this position.

In accordance with the resolution adopted by the Assembly and approved by the Council China was reelected to fill one of the two provisional non-permanent seats on the Council. China has occupied a provisional non-permanent seat on the Council since 1936 and will now continue to occupy such a seat until 1942.

Respectfully yours,

HAROLD H. TITTMANN

JAPANESE INTERFERENCE WITH AMERICAN TREATY RIGHTS AND WITH EQUALITY OF COMMERCIAL OPPORTUNITY IN CHINA⁵⁸

693.001/461 : Telegram

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

TOKYO, January 9, 1939—8 p. m.
[Received January 9—1:50 p. m.]

16. 1. My British colleague⁵⁹ has received from his Government and has given me the text of a proposed note to be presented to the Japanese Government along the general lines of our note of December 30.⁶⁰ He says that this note was drafted in London before his Government had knowledge of our note. He was instructed to consult my opinion as to the advisability of this step and after examining the text I told Craigie that in my personal opinion the action was advisable but that of course I was not speaking for my Government. The French Ambassador expressed the same opinion and is recommending similar action by his own Government.

⁵⁸ *Foreign Relations, The Soviet Union, 1933-1939*, p. 804.

⁵⁹ See vol. I, section entitled "Concern of the United States Over Soviet Demands on Finland . . ."

⁶⁰ Continued from *Foreign Relations, 1938*, vol. IV, pp. 1-115. See also *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 827 ff.

⁶¹ Sir Robert L. Craigie, British Ambassador in Japan.

⁶² *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

2. Craigie proposes to recommend to his Government various inconsequential alterations in phraseology and also to recommend prompt publication in London on delivery. There will therefore be some delay in presenting the note to the Japanese Government so that if for any reason unknown to me the Department should disagree with my personal opinion as expressed to Craigie there will presumably be time for the Department to communicate with me.

3. Craigie is not aware whether the provisional text of the note which runs to approximately 4 pages of foolscap has been shown to the Department. I therefore give a brief résumé as follows:

(a) Japan's new policy as publicly stated is regarded by the British Government with uncertainty and grave anxiety.

(b) Assumes that Japan-China-Manchukuo bloc will form a single economic unit with supreme authority vested in Japan and that economic activities of other powers will be restricted as required.

(c) Cites terms for settlement of Sino-Japanese hostilities as enunciated by Prince Konoye⁶¹ emphasizing proposed complete Japanese military control of Inner Mongolia.

(d) British Government cannot understand how such terms can be reconciled with Prince Konoye's assurances that Japan respects the sovereignty of China and seeks no territorial gain.

(e) British Government cannot recognize or accept conditions brought about by force and cannot agree to unilateral modification of Nine Power Treaty⁶² to whose principles it intends to adhere. Beneficial effects of that treaty were being steadily realized until outbreak of present hostilities. Cannot agree that treaty is obsolete or that its terms no longer meet situation except insofar as the situation has been altered by Japan.

(f) British Government does not contend that all treaties are external [*eternal?*] and would consider constructive and concrete suggestions for modification by negotiation.

(g) Abolition of extraterritoriality and foreign concessions in China would entail small sacrifice on the part of Japan when in control of China. Negotiations for abrogation of British extraterritorial rights were nearly completed in 1931 and suspended owing to disturbed conditions following seizure of Manchuria⁶³ but British remained ready to resume negotiations on this and other similar questions with a fully independent Chinese Government after restoration of peace.

(h) British Government would welcome a more precise and detailed exposition of Japanese policy toward China and of Japanese conditions for terminating hostilities. Any misinterpretation of intentions of Japanese Government is due to ambiguity of official utterances.

GREW

⁶¹ Statement of December 22, 1938, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 432. Prince Konoye was Japanese Prime Minister.

⁶² Signed at Washington, February 6, 1922, *Foreign Relations, 1922*, vol. I, p. 276.

⁶³ See *ibid.*, 1931, vol. III, pp. 716 ff.

693.001/461 : Telegram

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

WASHINGTON, January 9, 1939—7 p. m.

7. Your 16, January 9, 8 p. m. This Government had not been consulted. Department concurs in the personal opinion which you expressed.

WELLES

693.001/477 : Telegram

The Consul at Chefoo (Roberts) to the Secretary of State

CHEFOO, January 16, 1939—10 a. m.

[Received January 16—7:15 a. m.]

4. Referring to my telegram No. 2, January 12, 5 p. m.,⁶⁴ concerning the import and export restrictions.

1. The Japanese are organizing the Chinese merchants at Chefoo into guilds which for a fee of one percent on valuable cargo and one-half percent on ordinary cargo will undertake to obtain permission from the Japanese Navy authorizing the shipment of merchandise from Chefoo to guerrilla controlled ports of Shantung. The Japanese organizers claim their participation is necessary to obtain permission from the Japanese Navy as outside firms will be refused permits.

2. Guild profits are to be split 70 percent to the Japanese, 30 percent to the Chinese members.

3. The principal American interests affected are the Standard-Vacuum Oil Company and the Texas Oil Company, for it is very likely their dealers will be forced to ship through the guilds.

4. Repeated to Peiping, Chungking, Shanghai and Tsingtao.

ROBERTS

693.001/476 : Telegram

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

TOKYO, January 16, 1939—8 p. m.

[Received January 16—9:15 a. m.]

24. Our 16, January 9, 8 p. m. In presenting the British note to the Foreign Minister⁶⁵ on January 14 my British colleague said to Arita that their note had been drafted in London before they had knowledge of our note of December 30⁶⁶ and that there had therefore been no collusion between the British and American Govern-

⁶⁴ Not printed.⁶⁵ Hachiro Arita.⁶⁶ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

ments. The similarity of the two notes, he said, was therefore particularly significant as indicating that the two Governments were thinking along similar lines. The Minister replied that it was a matter of indifference to him as to whether there had been or not. Craigie says that no further comment was made.

Local press comment on the British note will be cabled shortly.

GREW

693.001/482 : Telegram

The Chargé in France (Wilson) to the Secretary of State

PARIS, January 17, 1939—5 p. m.
[Received January 17—3:40 p. m.]

102. The new chief of the Far Eastern Division of the Foreign Office, Chauvel, showed me this morning their cable sent to the French Ambassador⁶⁷ at Tokyo on January 14 containing the text of the note to be transmitted to the Japanese Government at a date to be determined by the French Ambassador after consultation with his British colleague. The Foreign Office has not yet received word that the note has been delivered. It is planned to publish the note 24 hours after delivery. Chauvel told me that the text had been cabled to Saint-Quentin⁶⁸ who has presumably shown it to the Department.

Chauvel also showed me a copy of the note sent by the French Foreign Office on January 14 to the British Embassy here, communicating the text of the note cabled that day to the French Ambassador at Tokyo, and explaining the reasons for its brevity. The French thought it desirable to confine their note mainly to an affirmation of the principle that treaties cannot be set aside by unilateral act. They thought it unwise to request, as the British had done, a detailed exposition of Japanese policy towards China, feeling that this might lead to an international negotiation with the Japanese and that before inviting such negotiation there should be prior consultation and agreement on a program between the other powers particularly between Great Britain, the United States and France.

The British in a communication to the French January 7 had proposed that the other signatories of the Nine Power Treaty should be requested to take similar action to that taken by the United States, Great Britain and France. The French in their reply January 14 questioned the wisdom of this, pointing out that Italy would certainly decline to take such action. The French, however, said that they would be prepared to have the British and French notes to the Japanese, and if possible the American note also, officially transmitted to the other signatories of the Washington Treaty.

⁶⁷ Charles Arsène-Henry.

⁶⁸ French Ambassador in the United States.

Chauvel likewise showed me a note handed him yesterday by the Chinese Chargé d'Affaires setting out the inability of the Chinese Government to continue to make advances to cover service on the Chinese customs secured loans.⁶⁹ The Foreign Office intends to ask Corbin⁷⁰ in London to inquire what the British propose doing about this situation and they will probably ask Saint-Quentin to make a similar inquiry at the State Department.

WILSON

393.115 Standard Vacuum Oil Co./87

The Chargé in China (Peck) to the Secretary of State

No. 1887

PEIPING, January 17, 1939.

[Received March 1.]

SIR: I have the honor to refer to the Embassy's despatch No. 1761 of October 31, 1938,⁷¹ in regard to the refusal of the Japanese authorities to permit the discharge of bulk gasoline and kerosene at Tsingtao by the Standard-Vacuum Oil Corporation, in connection with which a third person note, dated October 28, 1938,⁷¹ was left at the Japanese Embassy, and to transmit herewith, for the information of the Department, a copy of the reply of the Japanese Embassy, dated January 11, 1939,⁷¹ to the representations made in the Embassy's note.

The Department will observe that the Japanese authorities maintain that the present situation is such as not to permit the vessels of third Powers using the main harbor "for some time", thus definitely rejecting the request of this Embassy that steps be taken to restore the freedom of the American company to pursue its legitimate trade in China. Furthermore, the Department will observe that, although the Japanese authorities reiterate that "the interests of the third Powers shall be respected", such assurance is qualified by the phrase "as circumstances permit".

The last sentence of the Japanese reply is of additional interest in that it states that the Japanese navy has imposed no special restrictions upon the free passage of American vessels in open ports where no naval or military operations took place, apparently assuming thereby that a mere statement by the Japanese of the existence of military or naval operations is sufficient to warrant the exclusion of legitimate American commerce.

Respectfully yours,

For the Chargé d'Affaires ad interim:

FRANK P. LOCKHART
Counselor of Embassy

⁶⁹ See pp. 800 ff.

⁷⁰ Charles Corbin, French Ambassador in the United Kingdom.

⁷¹ Not printed.

893.5151/547 : Telegram

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

WASHINGTON, January 19, 1939—7 p. m.

15. Chefoo's telegrams no. 2, January 12, 5 p. m.,⁷² and no. 4, January 16, 10 a. m., which Shanghai is being requested to repeat to you, in regard to exchange control and import and export restrictions.

Please consult your interested colleagues in regard to the information contained in the telegrams under reference and in your discretion protest to the Japanese Foreign Office against the requirement of import and export permits at Chefoo and in regard to the guilds being formed at Chefoo on the ground that these activities constitute an unwarranted interference with American trade in China.

Repeated to Chungking, Peiping, and Chefoo.

HULL

693.001/486 : Telegram

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

TOKYO, January 20, 1939—3 p. m.
[Received January 20—6:30 a. m.]

31. Our 16, January 9, 8 p. m. My French colleague has handed me a copy of note which he presented yesterday to the Japanese Government along the same general lines as the British and our notes. As I understand that the text has been cabled to the United States by the press, I shall send a copy by mail.

The French note refers to Japan's new policy and states that it has engaged the special attention of the French Government; that it believes the provisions of the Nine Power Treaty to be still valid and that it could not recognize any modification of existing conditions in China established under treaties in force without prior consultation and agreement by the interested powers. The French Government refuses to believe that the Japanese Government intends unilaterally to denounce the treaties and in case the latter believes that the present course of events warrants an adjustment of the provisions of the Washington Treaties it should communicate any suggestions deemed opportune. These will be closely examined by the French Government.

GREW

⁷² Not printed.

693.001/487: Telegram

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

SHANGHAI, January 20, 1939—5 p. m.
[Received January 20—1:18 p. m.]

59. Reference Department's 632, November 23, 8 p. m.⁷³ concerning unwarranted Japanese interference with American interests.

1. During the past 30 days this office has addressed letters to the local Japanese Consulate General, requesting passes for Hankow for T. D. Malcolm, a British employee of the Standard-Vacuum Oil Company; R. J. Reed of William Hunt and Company; O. E. Vongehr, Federal Incorporated United States of America; and E. C. Stocker of the Texas Company (China) Limited. The foregoing three are American citizens. These men are needed in Hankow in connection with the conduct of their respective companies. The written applications have been followed up almost daily in conversations between officers of this Consulate General and Japanese Consular officers.

2. Yesterday morning this Consulate General confirmed previous reports that a Japanese naval transport, understood to be the *Shinyo Maru*, will leave Shanghai for Hankow on January 21. It was further ascertained orally from the Japanese Consulate General that the Japanese authorities have arranged transportation on it for 2 British men, 1 of whom is a business man, 1 American employed by a British missionary organization (his application for a pass consequently was made by the local British Consulate General), 11 British ladies, 5 Italian naval officers, 1 Italian doctor, 1 White Russian, a French consular officer, 2 Italian, 2 French and 2 German ladies.

3. Notwithstanding the efforts of this Consulate General, the Japanese authorities have refused to arrange transportation on the transport for the four men whose applications for passes were made by this Consulate General. The Japanese Consulate General has not given this office any valid reason for the refusal. They have stated that there will be other transports and that they will try to arrange transportation but they refuse to make definite commitments at this time.

4. The refusal may be partly motivated by the fact that the four applicants in which this office is interested are businessmen. However, it appears that in this case the urgent applications of this Consulate General have been refused while passage has been arranged for other applications, some of whom have less urgent reasons for returning to Hankow.

⁷³ Same as telegram No. 305, of the same date, to the Counselor of Embassy in China at Peiping, *Foreign Relations*, 1938, vol. IV, p. 96.

5. It is suggested that representations in Tokyo may facilitate favorable action by the Japanese.

6. It might be added that, in general, this office has observed that since January 1, 1939 longer delays have occurred in the issuance of passes than was the case in November and December, and that in some instances passes have been refused without valid reasons.

Repeated to Peiping, Tokyo, and Hankow.

For the Consul General:
BUTRICK ⁷⁴

793.94/14642 : Telegram

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

TOKYO, January 24, 1939—10 a. m.
[Received January 24—7:20 a. m.]

41. My British colleague has received following information from a source ⁷⁵ which he considers both trustworthy and well informed:

1. Informant had been much struck with marked change in the attitude towards currency question of both Japanese Army officers and businessmen which he had noted in Shanghai on the occasion of a recent visit as compared with a visit some months earlier. On the earlier occasion the belief seemed to prevail that undermining of the Chinese national currency should definitely be a Japanese objective, but now there seemed to be a general agreement that on the contrary it was now Japan's interest to see the value of the currency maintained at least at its present value. He had also noticed a tendency of the Japanese to consider that the Yangtze River question should be settled by means of business arrangements between the private interests concerned. The main difficulty was the fear of the Japanese officers and businessmen that, once foreign shipping had been admitted, the Japanese ships would run empty; one way of avoiding this would be a profit sharing arrangement which would guarantee Japanese shipping against losses due to purely political circumstances. The profits would be shared pro rata according to the amount of commercial tonnage operating on the river.

2. Informant found these tendencies encouraging and believed there was now a more genuine realization in Central China that Japan could not expect to exploit these vast areas purely in her own interest.

3. Informant did not appear to regard the Hiranuma Cabinet ⁷⁶ as a strong one and suggested that they themselves had little idea as to

⁷⁴ Richard P. Butrick, Consul at Shanghai.

⁷⁵ Kenji Kodama, Japanese head of the Central China Promotion Company.

⁷⁶ Baron Kiichiro Hiranuma became Japanese Prime Minister on January 5.

the real meaning of the "new order" in East Asia. Certainly informant had been able to obtain no guidance as to how these vague generalities were to be translated into concrete measures for the promotion of Japanese trade. He did, however, imply that we must expect a more aggressive promotion of Japan's new policy of economic expansion in the north than in the center or south. Informant was doing his best to persuade Arita, who was a personal friend, of the importance of conciliating the foreign interests concerned, but latter was, of course, under great pressure from other and less friendly quarters.

4. The foregoing observations, as reported to me, lack precision but they at least indicate the way in which the wind appears to be now blowing in Central China.

GREW

693.001/499 : Telegram

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

TOKYO, January 31, 1939—noon.

[Received 4:02 p. m.]

52. Our 39, January 21, 3 p. m.⁷⁷ Return of Americans to Hankow. The situation described in Shanghai's 59, January 20, 5 p. m. having been brought to the attention of the Foreign Office, an oral reply was received substantially as follows:

1. *Shinyo Maru*, which sailed from Shanghai for Hankow on January 21, carried no foreigners. Two American women who had permission to proceed on that vessel cancelled passage;

2. The Japanese authorities at Shanghai are giving consideration to the granting of passes to foreigners in the following order: first, military and civil government employees; second, all others proceeding to Hankow as replacements for those coming down river; third; wives and children of the above;

3. Since January 1 there has been a tightening up, with fewer passes being issued, for the reason that conditions at Hankow are not satisfactory. The situation there was expected to clear up later on, but in any event the Japanese authorities at Shanghai would have to be the judge in the matter of the granting of passes;

4. The Japanese Consulate General at Shanghai had reported that it regretted that the American Consulate General felt that American citizens were being less favorably treated than other foreigners but there is no justification for this feeling.

Repeated to Peiping and Hankow.

[GREW]

⁷⁷ Not printed.

693.001/504 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, February 1, 1939—9 a. m.
 [Received February 2—5 a. m.]

Shanghai's January 31, 6 p. m.,⁷⁸ and Tokyo's January 31, noon, return of Americans to Hankow. The party of foreigners mentioned in Shanghai's 59, January 20, 3 [5] p. m. to the Department arrived at Hankow on board the *Shinyo Maru* January 30th. According to Father Ralph Reilly of Franciscan Fathers of New York, there were 36 foreign passengers and Reilly was only American citizen on board.

British Vice Consul McDermott arrived here from Shanghai last week on a Japanese naval transport plane which was half empty.

Sent to Shanghai and Peiping. Shanghai please repeat to Tokyo.

JOSSELYN

693.001/502 : Telegram

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

SHANGHAI, February 1, 1939—5 p. m.
 [Received 6:55 p. m.]

Reference my January 31, 6 p. m. to Hankow⁷⁸ and Tokyo's No. 52, January 31, noon, concerning return of Americans to Hankow.

In a conversation this morning the local Japanese Consul General confirmed that the transport was the *Shinyo Maru* and that it carried to Hankow a party of foreigners. He stated that any information to the contrary obtained in Tokyo must have been due to a misunderstanding.

The essentials are that American business interests are unable to send their representatives to Hankow (and other Yangtze ports) because of Japanese restriction and that American interests are suffering therefrom.

Sent to Tokyo. Repeated Department, Peiping, and Hankow.

GAUSS

393.115 Standard Vacuum Oil Co./83 : Telegram

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

SHANGHAI, February 3, 1939—9 a. m.
 [Received February 3—6 a. m.]

91. Our 1094, August 11, 4 p. m.⁷⁹ regarding desire of Standard Vacuum Oil Company to despatch its motor vessel *Meinan* to Chin-

⁷⁸ Not printed.

⁷⁹ *Foreign Relations*, 1938, vol. iv, p. 436.

kiang and Wuhu. Number of representations were made to the Japanese and finally in January an officer of the Japanese Consulate General approached a member of my staff and stated that if application for a permit were made on the basis that the cargo carried was for the use of the American Navy a permit would be issued even though all such cargo might not be naval. As practically none of the cargo to be carried was to be for the United States Navy, the officer mentioned was told we could not be party to such an arrangement. However, the company made arrangements direct as the result of which a permit was issued for one trip to carry supplies for "foreign navies". The *Meinan* which actually is carrying very little for the United States Navy or any other navy sailed January 31 and has arrived at Chinkiang. The Standard Vacuum Oil Company is understood also to have almost concluded an arrangement with the Japanese Naval authorities whereby its motor vessel *Meiyun* (1491 December 22, 1 p. m.⁸¹) will be theoretically chartered to the Japanese naval authorities and brought from Kiukiang to Shanghai for repairs.

In proposing these devious arrangements the Japanese have stressed friendly relations between the United States and Japan and are probably seeking to keep us quiet and play us off against the British. In view of the subterfuges recorded and the secrecy enjoined it seems clear the Japanese do not wish it to appear that the Yangtze has been opened to commercial shipping.

Repeated to Peiping and Tokyo.

Code text by mail to Nanking.

GAUSS

693.001/526a

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

No. 1647

WASHINGTON, February 3, 1939.

SIR: The Department refers to recent Japanese pronouncements which have indicated that those powers which understand the "new order" in the Far East will be given privileges not available to powers which fail, in the view of the Japanese authorities, to understand the "new order". Such intimations have occurred in (1) the "Statement of the Japanese Government" of November 3, 1938,⁸² in which, following a reference to the task of bringing about a "new order" in East Asia, the statement is made that "Japan is confident that other Powers will on their part correctly appreciate her aims and policy and adapt their attitude to the new conditions prevailing in East Asia", followed by the sentence, "For the cordiality hitherto manifested by the nations which are in sympathy with us, Japan

⁸¹ *Foreign Relations*, 1938, vol. IV, p. 208.

⁸² *Foreign Relations*, Japan, 1931-1941, vol. I, p. 477.

wishes to express her profound gratitude"; (2) the statement made on November 3, 1938, by the Japanese Premier,⁸³ during the course of which the Premier stated that Japan did not grudge cooperating with the Powers for peace in the Far East, if the Powers understood the real intentions of Japan and devised a policy in accordance with the new situation in the Far East, and in which he also said that Japan was grateful to Germany and Italy for their understanding of Japan's intention in the Far East and for their extending of moral support "in the current incident"; (3) the Japanese reply of November 18, 1938,⁸⁴ to the American note of October 6, 1938,⁸⁵ in regard to American rights and interests in China, in which, following a reference to a "new order" and a "new situation" in East Asia, there occur the words, "as long as these points are understood, Japan has not the slightest inclination to oppose the participation of the United States and other powers in the great work of reconstructing East Asia along all lines of industry and trade"; (4) the statement of the Japanese Premier of December 22, 1938,⁸⁶ in which occur the words, "Japan does not intend to exercise economic monopoly in China, nor does she intend to demand of China to limit the interests of those third Powers, who grasp the meaning of the new East Asia and are willing to act accordingly"; and (5) the statement made on January 1, 1939, by the Japanese Minister for Foreign Affairs, in which the Minister expressed the nation's thanks to Germany and Italy which "accurately recognize the actual state of affairs in East Asia and show a sincere attitude in extending helping hands to the pacific construction works in this part of the world".

It is desired that the Embassy endeavor to observe whether German and Italian interests are in fact given preferential treatment by the Japanese authorities or by those Chinese authorities who are under Japanese direction and that the Embassy report to the Department instances of such preferential treatment if and as they occur. It is possible that preferential treatment might manifest itself in matters such as settlement of claims arising out of the hostilities, removal of restrictions on freedom of movement on the Yangtze and Pearl Rivers, the granting of import and export and exchange permits, and the like.

Similar instructions are being sent to the Embassy at Peiping, the Consulates General at Canton, Shanghai, and Tientsin, and the Consulate at Tsingtao.⁸⁷

Very truly yours,

For the Secretary of State:
SUMNER WELLES

⁸³ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 478.

⁸⁴ *Ibid.*, p. 797.

⁸⁵ *Ibid.*, p. 785.

⁸⁶ *Ibid.*, p. 482.

⁸⁷ Reports in reply were negative as to preferential treatment.

893.5151/547 : Telegram

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

WASHINGTON, February 4, 1939—3 p. m.

29. Department's 15, January 19, 7 p. m., in regard to exchange control and import and export restrictions at Chefoo. In view of subsequent telegrams from Chefoo and Peiping's 66, February 3, noon,⁸⁸ as well as continued receipt by the Department of requests for action from interested firms in the United States, Department desires that, if you have not already done so, you make an approach to the Japanese Foreign Office along the lines indicated in the telegram under reference.

Please report action taken.⁸⁹

HULL

811.30 Asiatic Fleet/675 : Telegram

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

WASHINGTON, February 9, 1939—noon.

30. Hankow's No. 20, January 21, 1 p. m., and 35, February 6, 4 p. m., which Shanghai has been requested to repeat to you, and your February 2, 6 p. m.⁹⁰

Please approach the Foreign Office in such manner as you deem appropriate and after calling attention to the continuing adverse effects upon American interests resulting from restrictions imposed by the Japanese authorities upon freedom of navigation on the Yangtze, urge that early action be taken to remedy the situation.

Shanghai and Hankow please continue to keep this subject before the local Japanese authorities.

Repeated to Shanghai, Hankow, Peiping, Chungking.

HULL

893.811/1097 : Telegram

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

TOKYO, February 10, 1939—7 p. m.

[Received February 10—11: 45 a. m.]

84. Department's 30, February 9, noon, via Shanghai, navigation on Yangtze.

1. During the past few weeks a group of leading Japanese private individuals who are interested for various reasons in regaining Amer-

⁸⁸ Not printed.⁸⁹ The Ambassador in Japan reported that the approach was made on February 6 (893.5151/559).⁹⁰ None printed.

ican and British good will have been urging the Prime Minister and other Government leaders to take some specific action which would make it possible for the American and British Governments to put some degree of confidence in Japanese official assurances that foreign rights and interests are not to be driven out of China. These individuals are concentrating on the question of Yangtze navigation partly because the wide attention it is receiving abroad would give its settlement correspondingly wide and favorable attention and desired because the Japanese military authorities are said to be ready to hear arguments on this case.

We have been regularly in touch with a member of this group and also with the Vice Minister for Foreign Affairs⁹¹ who assures us that he is actively cooperating with this group and with Yoshizawa.⁹²

2. It was not my intention to telegraph to the Department on these developments until I was in a position to report some concrete result. With the Japanese Government officially taking a *non possumus* position with regard to navigation on the Yangtze in reply to the contention of the American Government as set forth in our note of October 6⁹³ our inclination would be to watch the efforts of constructive elements both inside and outside the government and to hold off for the present from fresh formal representations on this specific question. In accordance with the Department's instructions we shall continue informally to press the Foreign Office and to stress the need of removing the restrictions.

No repetition.

GREW

893.51/6813 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 16, 1939—noon.

[Received 12:28 p. m.]

107. Reference Embassy's 78, February 6, 3 p. m.,⁹⁴ the following is the Embassy's translation of a note dated February 9 from the Ministry of Foreign Affairs:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that it has received a communication from the authorities concerned to the following effect:

According to reports recently the Japanese widely proclaimed in Tientsin that a fixed date has been set for the devaluation and invalidation of the banknotes of the Bank of China and the Bank of

⁹¹ Renzo Sawada.

⁹² Director of the American Affairs Bureau, Japanese Foreign Office.

⁹³ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 785.

⁹⁴ *Post*, p. 647.

Communications. Of all the foreign banks, the National City Bank of New York alone notified its depositors promptly to withdraw their deposits, stating additionally that when deemed necessary it will probably return deposited funds.

The foreign banks had earlier refused to use the notes of the Central Bank of China with a view to placating the Japanese and the bogus organization, accepting only the notes of the Bank of China and the Bank of Communications; in consequence, use of the notes of the Central Bank of China was suspended. From the foregoing the indication may be drawn that in the future it will be difficult to guarantee that pressure will not be brought to suspend use of the notes of the Bank of China and the Bank of Communications.

It is observed that since the introduction of legal tender notes they have been uniformly used by Chinese and foreign merchants and have enjoyed great confidence. The Ministry of Finance has announced that it will in the future assume absolutely no responsibility for adjustment of the banknotes arbitrarily issued in North China by the Japanese and the bogus organization, and has also issued a circular to Chinese and foreign merchants and civilians not to accept and use such notes, as is common usage.

The Japanese and the bogus organization are, on the one hand, freely issuing large amounts of bank notes and, on the other, are not devaluating the legal tender notes of the Bank of China and the Bank of Communications in an attempt to destroy the whole of China's monetary system, to monopolize the trade of various departments in China and to realize the ambition of independently occupying east. All foreign nationals and merchants in China should jointly cope with the situation.

The Ministry, apart from causing the Chinese Embassy in the United States to request the American Government to rectify the activity of the National City Bank of New York, has the honor to request that the American Embassy in China pay attention to the matter and instruct all American citizens and merchants in China uniformly to use legal tender notes as in the past and to refuse the bogus currency. A reply is also requested."

The Embassy is replying to the note under reference today, stating that the matter is being referred to the American Government.

Repeated to Shanghai, Tientsin, Peiping.

PECK

893.811/1098: Telegram

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

TOKYO, February 18, 1939—4 p. m.

[Received February 18—7 a. m.]

97. Our 84, February 10, 7 p. m.

1. Mr. Katsuji Debuchi, former Ambassador to the United States, continuing interpellations, which he began on Thursday, in an effort to convince the Government of the necessity of correcting the wrong conceptions held abroad concerning Japan's internal political situ-

ation and Japan's intentions with regard to China, urged that the Government adopt a diplomatic policy which would prevent this country's isolation in the Far East, and that at the same time pending problems with other countries be solved. Mr. Arita replied that every effort was being, and would continue to be made in that direction.

Referring to the question of the opening of the Yangtze River to navigation, Mr. Debuchi is reported to have said, "the Yangtze River is the principal economic artery in China and its opening will, I believe, contribute to the construction of a new East Asia. I, therefore, hope that, in so far as it does not interfere with military actions, the river will be opened to as great an extent as possible. When will the river be opened?"

The vernacular press reports that in reply, Admiral Yonai⁸⁵ after denying that the Yangtze, in principle, is "an international river" or "the common property of third powers", admitted the value of its commercial use to the life of the Chinese people and said "while I cannot, at the present time, make a definite statement because of the existence of strategic necessities, I hope that the opening will materialize as quickly as possible."

[2.?] The *Kokumin Shimbum* in commenting upon Mr. Debuchi's request for the reopening of the Yangtze River made an indirect reference to the recently reported support by vessels of third powers of arms, et cetera, to Chinese irregulars in Shantung Province and intimated that similar activity unfriendly to Japan might be expected if freedom of navigation on Yangtze were allowed. In view of such circumstances, the article continued, it was only natural that the opening of the river could not be expected. All circles, it was stated, were shocked by Mr. Debuchi's request since the established policy of the Japanese Government is to open the Yangtze River as soon as strategic circumstances permit; since it appears that this request refutes the opinion of some of those who favor a "weak kneed" diplomatic policy, it was said, considerable importance is attached to Mr. Debuchi's statement by the various circles concerned.

GREW

793.94/14857

The Chargé in China (Peck) to the Secretary of State

No. 1930

PEIPING, February 18, 1939.

[Received April 3.]

SIR: I have the honor to report, as of possible interest to the Department, that the Kokusai Unyu (International Express Company) is rapidly and steadily increasing its activities throughout North China.

⁸⁵ Japanese Minister of Navy.

According to the *Manchuria Daily News* of February 15, 1939, this company had only 30 employees in North China prior to the Manchurian Incident, only 90 between that date and the beginning of the China Incident, whereas at the present time the company employs 1,300 persons throughout the occupied areas of North China. The news article, in reporting the establishment of branch offices in Shih-chiachwang, Tsinan, Taiyuan, Tsingtao and Hsuchow, states that the company proposes to establish new agencies at certain stations along the Peking-Hankow and Tientsin-Pukow Railways south of the Lung-hai line as well as along other railways in Shansi and Suiyuan.

In the broad aspect of Japanese economic penetration the activities of Japanese forwarding agencies are a small matter. But the enlarged activities of such agencies are generally symptomatic of the hold which Japanese enterprise is endeavoring to have upon commercial matters throughout the occupied areas. In this connection, it may be briefly stated that the transportation of goods, unless handled by Japanese concerns, is now subject to long and vexatious delays, and that such delays result in extra expense and often a loss of market.

The same condition would appear to obtain in other occupied areas of China; especially it is understood that, although commercial shipments are not permitted up the Yangtze, merchandise delivered to Japanese agencies has some chance of being delivered to the various Yangtze ports, even in the guise of military supplies.

Respectfully yours,

For the Chargé d'Affaires ad interim:

FRANK P. LOCKHART
Counselor of Embassy

893.51/6813 : Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, February 24, 1939—3 p. m.

39. Your 107, February 16, noon, currencies in north China. The Department would prefer that you refrain from making further reply to the note quoted in your telegram under reference if you feel that you can appropriately do so.

The Department has been approached by the Chinese Embassy here in regard to the same matter. For your information, an officer of the Department in reply commented orally to the effect that, while it appreciates the considerations which gave rise to the Chinese Embassy's approach and while the American authorities assuredly do not wish to take any steps which might affect unfavorably the Chinese banking and currency structure, there are a number of important

problems arising from the abnormal conditions in the Far East which American banks must take into account; and that such banks have the responsibility of safeguarding themselves against losses due to the irregular currency situation. It was indicated also that the American authorities would not be in position to raise objection or express disapproval of such measures as the banks, after carefully weighing all the factors in the situation and the banks' responsibilities in relation thereto, might adopt for their own protection.

In addition, the representative of the Chinese Embassy who brought the above matter to the Department's attention said that, according to confidential information, the Japanese are planning a new bank, to be directed by Kodama, which will serve as a central bank with a capital of 100 million dollars. The new bank will issue currency and fix the foreign exchange rate at 8 pence. The Chinese Embassy expressed the belief that the Japanese hope to drive out Chinese currency with the note issue of the new bank. The Embassy representative stated that he was bringing the matter to the attention of the American authorities in the hope that the American Government would be able to do something toward preventing the establishment of such a currency either by refusing to deal in it or by causing American banks and American nationals to refuse to accept it. In reply to this point, the Department is informing the Chinese Embassy orally that the Department would make inquiry into the reported plans for the formation of a new bank and would continue its study of the situation.

Repeated to Peiping, Shanghai, and Tientsin.

HULL

600.939/276 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, February 25, 1939—4 p. m.

[Received 11:44 p. m.]

17. Commissioner of Customs has expressed the following personal opinion for confidential information only:

Press reports that trade and currency restrictions will be imposed on exports from North China on March 10 are probably substantially correct and the customs must refuse to pass goods unless requirements are fulfilled.

Restrictions are based on barter system but governments using that system have complete control over the entire national trade whereas here the banks, merchants, consumers and producers control the trade especially in the extensive areas not controlled by the Japanese military or any government.

The trade of North China ports will probably be killed by the restrictions but the trade of China will not be appreciably affected as it will flow through ports such as in Shanghai where the restrictions will not be in effect. The large firms may survive but the small concerns will probably be ruined.

Although in theory the yen and the Reserve Bank dollar are exchangeable at par the Yokohama Specie Bank, with rare exceptions, refuses such exchange. Yen notes have been removed to leave the Tientsin market for the Reserve Bank notes. If these notes are the only accepted currency in North China areas controlled by the Japanese military there will have to be a greatly increased issue with an undesirable inflation and an eventual unlimited depreciation.

There will be a great reduction in exports from Japan to North China as the present North China imports much exceed exports and the difference will be increased by the restrictions.

Japanese commercial firms disapprove of the military policy, the dangers of which are realized even by the military, who have decided on a mad course in the hope that the third countries affected might subordinate political considerations to immediate gain and make the first move toward cooperation. Reconstruction cannot be effective without stabilization on a cooperative basis of currency, credit and trade throughout China.

Repeated to Peiping, Chungking and Shanghai.

CALDWELL

893.5151/568 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, February 27, 1939—3 p. m.

[Received February 27—9:20 a. m.]

British Consulate General informs me that manager of Chartered Bank has learned from Kawamura of Yokohama Specie Bank that exchange control is to go into effect March 10 and that Sakatani will shortly come to Tientsin and endeavor to arrange for cooperation on the part of various foreign banks.

The British Consulate General is telegraphing British Embassy concerning importance of adoption of same attitude by British, French and American banks and I am mentioning this informally to the managers of the National City Bank and the Chase Bank.

Sent to Peiping, repeated to Chungking.

CALDWELL

893.516/583 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, February 27, 1939—4 p. m.

[Received February 27—1 : 55 p. m.]

103. Reference Chungking's 78, February 6, 3 p. m.,⁹⁶ and Department's 62 to Shanghai, February 24, 3 p. m.⁹⁷

1. An officer of the Japanese Embassy stated today that a new bank was being planned for the parts of Central China under the control of the Reformed Government. He said that the authorities had foreseen the necessity of such a bank for some little time and although the date of inauguration was not predictable it was certain that such a bank would be opened. He said that the main question now being studied was the matter of reserves for that bank.

2. He stated further the new bank would probably issue currency at the fixed rate of exchange of 8 pence per United States dollar. When queried as to how the proposed Central China dollar would affect the Federal Reserve Bank dollar, which is to be pegged at 1 shilling 2 pence per United States dollar, he replied that certain control measures would have to be instituted and explained that for all practical purposes (imports, exports, transfers of currency, et cetera) North and Central China would be considered as separate entities. He intimated further that a plan for the retirement of national currency circulating in Central China was under consideration but stated that he was not acquainted with the technical details pertaining to the organization of the new bank.

3. It would appear that the pegging of the new Central China currency if and when issued at 8 pence is a more realistic view of the financial situation in China by the Japanese than the pegging of the Federal Reserve Bank currency at 1 shilling 2 pence. The Japanese official mentioned above seemed to have this act [*fact?*] in mind when he stated that it will be difficult to maintain the higher rate of Federal Reserve Bank currency without "control measures" whereas the lower rate of the new Central China currency will in no way hinder trade.

Repeated to Chungking and Shanghai; code text by mail to Tokyo.

LOCKHART

⁹⁶ *Post*, p. 647.

⁹⁷ Not printed.

893.5151/569 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, March 1, 1939—1 p. m.

[Received March 1—7 a. m.]

105. Reference Tientsin's 17, February 25, 4 p. m., and Peiping's 94, February 22, 11 a. m.⁸⁸

1. In a conversation with a foreign press correspondent last week, a secretary of Wang Keh Min⁸⁹ stated that all elements (meaning the various Japanese factions) were finally united as to the attitude to be adopted towards exchange and export control and that it had been decided to adopt such control measures as from March 10. At the same time the Secretary said that Wang Keh Min was opposed to the control measures on the ground that North China would suffer and that the Chinese would bear the brunt of such suffering.

2. Conversations yesterday and today with officials of the Japanese and British Embassies and an American banking source tend to confirm the above information that the Japanese appear to be determined to carry through their economic and financial policies.

3. The Japanese official interviewed admitted that it will be difficult to put exchange control into effect without trade control. He hastened to add that for the time being at least control measures will apply only to exports. When it was pointed out that there were already export restrictions on certain staple goods (cotton, wool, mineral oils, et cetera), he stated that numerous other articles mentioning peanuts and certain oils specifically would be placed under control. He foresaw a period during which trade would gradually drift southwards but optimistically concluded that everything would ultimately be adjusted to "everybody's satisfaction".

4. The British interpret "everybody's satisfaction" as meaning Japanese satisfaction and believe that the Japanese do not care what happens to North China trade so long as they get what they require from North China. The British official interviewed was very pessimistic as to the future of trade especially for foreigners in North China. In this view I concur.

Repeated to Chungking. Code text by mail to Tokyo, Shanghai.

LOCKHART

⁸⁸ Latter not printed.

⁸⁹ Chairman of the Executive Committee of the "Provisional Government" at Peiping.

893.516/584: Telegram

*The Consul General at Shanghai (Gauss) to the Secretary of State*SHANGHAI, March 1, 1939—3 p. m.
[Received March 1—10:06 a. m.]

167. Reference Department's 62, February 24, 3 p. m.,¹ and Peiping's 103, February 27, 4 p. m. The managers of the three American banks in Shanghai state that they have no information in regard to the reported plan for the establishment of a "new China bank" or any similar bank at Shanghai in the near future. Their considered opinion is that as long as the Chinese Government continues to support the Chinese dollar at its present level the Japanese authorities are almost certain to refrain from setting up such a bank, unless its major purpose is to serve as an excuse for the introduction of trade control in Central China, which they consider most unlikely.

The exchange broker E. Kann states that he has received no indication that such a move is imminent and that he considers it most unlikely that the Japanese authorities would make such a move so long as the Chinese Government continued to support the Chinese dollar at its present foreign exchange value. The head of a very large Dutch trading company who has frequent conversations with prominent Japanese officials in Japan informed this office in strict confidence that during a conversation in Japan 2 weeks ago Mr. Septao Sonoda, a director of the Central China Development Company, had informed him that the Japanese authorities would set up a new bank in Central China similar to the Federal Reserve Bank in North China but that the rate would be pegged at 8 pence and that great care is now being taken to make complete and foolproof arrangements in advance so that the success of the venture will be assured. When asked whether such a bank would be established within the coming month Mr. Sonoda said definitely not and implied that it would be a matter of 3 to 6 months at least before the plan was put into operation. Mr. Sonoda emphasized that the new currency would be maintained at a different level from the Federal Reserve currency but gave no indication that trade control would not be required to support the currency.

American bankers state that the Hong Kong and Shanghai bank sold approximately 300,000 pounds of foreign exchange Monday and as much again yesterday at the rate of $8\frac{1}{8}$ pence but that the market is firm and there is no indication to be obtained from the trading that the establishment of a new currency in Central China is imminent. Colleagues here are nevertheless considerably perturbed by the steady drain on the foreign exchange reserves set up by the Chinese Government banks with the Hong Kong and Shanghai Banking Corporation

¹ Not printed.

for the support of the Chinese dollar and question how long the Chinese Government will be willing to meet the heavy demand for foreign currency if it continues at the present rate. The Chinese banks are the heaviest buyers but whether they are buying on their own account or for merchants or speculators is not clear. There are strong rumors here that official or unofficial British support for Chinese currency has been promised but if this fails to materialize banks consider it doubtful if the Government will continue to meet a heavy demand indefinitely.

If the exchange value of the Chinese dollar is allowed to depreciate markedly, American bankers consider the early introduction by the Japanese of a new Central China currency very likely but insist that if it is to succeed it must be accompanied by the institution of restrictive trade controls.

Repeated to Peiping, to Chungking, Tientsin.

GAUSS

611.939/102: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, March 2, 1939—noon.
[Received March 2—7:30 a. m.]

107. Peiping's 679, November 15, noon.² Tientsin's despatch of February 25 states that the customs at Tientsin has been instructed to release for export sheep's wool sold to buyers in the United States and Germany prior to imposition of wool embargo and Tientsin has already certified invoices for wool for shipment to American consignees.

Repeated to Chungking, by air mail to Tokyo.

LOCKHART

600.939/281: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 4, 1939—3 p. m.
[Received March 4—8:05 a. m.]

155. Tientsin's 20, March 2, 6 p. m.³ Arthur Young⁴ informs the Embassy the Chinese Government has received a telegram from the Chinese Ambassador at Paris stating the latter is informed that the new exchange and export restrictions scheduled to go into effect in

² *Foreign Relations*, 1938, vol. iv, p. 85.

³ Not printed.

⁴ American adviser to the Chinese Ministry of Finance.

North China March 11 are to be enforced less stringently against Japanese, German and Italian trade than against the trade of other nations. Informant states he does not know the origin of the Chinese Ambassador's information but presumes that it came from French sources.

Repeated to Peiping, Tientsin.

PECK

693.001/519a : Telegram

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

WASHINGTON, March 4, 1939—3 p. m.

52. Reference Department's 29, February 4, 3 p. m. Tsingtao's 33, February 10, 3 p. m., and 40, February 28, 10 a. m.,⁵ Tientsin's 17, February 25, 4 p. m., No. 18, February 27, and No. 20, March 2, 6 p. m., and Peiping's 110, March 2, 5 p. m.,⁶ all in regard to trade restrictions in North China.

Department desires that you approach the Japanese Foreign Office in such manner as you may deem appropriate, and state that from various sources the Government of the United States has received information to the effect that the Japanese-sponsored régime in North China is, with the support of the Japanese authorities, contemplating the imposition of drastic trade restrictions, including the requirement of export permits and controlled money exchange. Say that this Government views with deep concern the increasing evidence in Japanese-occupied areas in China of interference with the normal flow of trade between the United States and those areas. Express the hope that the Japanese authorities will not countenance the proposed measures but, on the contrary, will remove existing restrictions which tend to prevent, between the United States and North China, the same normal and uninterrupted flow of trade that now, so far as action by the United States Government is concerned, prevails between the United States and Japan.

Department suggests that in your discretion you consult your British and French colleagues with the thought that they may wish to take similar but separate action.

Peiping please repeat to Tokyo such of the telegrams under reference as Tokyo has not received.

Repeated to Chungking, Tientsin and Tsingtao.

HULL

⁵ Telegrams Nos. 33 and 40 not printed.

⁶ Telegrams Nos. 18, 20, and 110 not printed.

893.515/1377

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] March 4, 1939.

The French Ambassador called at his request. He said that he had a cablegram from his Government in regard to the currency and exchange situation in north China. He said that his Government was prepared to make representations at Tokyo and that his Government wished to make inquiry as to the attitude of this Government. He said that the French Government was making similar inquiry of the British Government. He said also that, in regard to whether or not French banks in north China should make their own practical arrangements, his Government was inclined to take the attitude that decision should be left to the French banks concerned.

I told the Ambassador that, as he knew, this Government had already made representations on a number of occasions to the Japanese Government in regard to the restrictions which were being imposed upon American interests in China; that we had already prepared a telegram to our Ambassador at Tokyo¹ authorizing our Ambassador to make further representations; and that in this telegram our Ambassador was being authorized also to discuss the matter with his French and British colleagues. I said that I did not know whether that telegram had as yet been signed but that it had been sent forward for signature. I told the Ambassador that when the telegram was despatched I would inform his Embassy of that fact.²

With regard to American banks in north China and the attitude they should take, I said that we had just received certain additional details in regard to the currency and exchange situation in north China; that we were studying the whole matter; and that I was not at present in position to make any definitive comment. I said, however, that it was my understanding that the British Government could through the issuance of Orders in Council adopt measures which would protect British banks from suits by depositors for losses incurred as a result of an attitude which the banks might adopt, and that so far as I knew there was no American law which would similarly protect American banks and that the Executive had no authority to issue any regulation which would accomplish that purpose. I repeated that we were studying the whole situation. In response to the Ambassador's request, I told him that we would inform him of our conclusion, when reached.

¹ *Supra.*

² The French Embassy was duly informed on March 6.

693.001/521 : Telegram

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

TOKYO, March 8, 1939—4 p. m.
[Received March 8—7:30 a. m.]

123. Department's 52, March 4, 3 p. m., trade restrictions in North China.

1. We prepared and arranged to leave this afternoon at the Foreign Office an *aide-mémoire* closely following the lines suggested by the Department in its telegram under reference. However, I have just been informed by my British colleague that he has been instructed to present to the Minister for Foreign Affairs a formal signed note, including reservation of all British rights which may be affected by restricted measures, and that the British Embassy at Washington has been instructed to approach the Department with a view to directing me to make a similar formal approach. At Craigie's urgent request, I am withholding action for a few days.

2. My decision, in the exercise of the discretion granted me by the Department as to the manner of approach, to make informal representations, was reached only after careful consideration of the circumstances involved. Our note of October 6⁹ included formal representations with regard to trade restrictions in North China, the Japanese note of November 18¹⁰ conveyed in effect a refusal, and the full reservation of American rights in China communicated to the Japanese Government in our note of December 31 [30]¹¹ naturally covers the situation in North China. It is our view that nothing would be gained by initiating a new cycle of formal representations, if rejected by the Japanese, and fresh laying down of reservations. It is our thought that the procedure best calculated to be helpful to American business interests in North China is that of making frequent informal approaches. Illustrative of the results of such approaches it is interesting to note that according to the most recent lists of American citizens granted passes to return to points on the Yangtze River 432 passes were issued from May 31 to December 20 as contrasted with 53 passes issued to British nationals for the same period.

GREW

⁹ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 785.

¹⁰ *Ibid.*, p. 797.

¹¹ *Ibid.*, p. 820.

693.002/60 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, March 8, 1939—4 p. m.

[Received March 8—2:20 p. m.]

122. Reference Tientsin's 26, March 7, transmitting message from American Chamber of Commerce, and Peiping's 119, March 7, 4 p. m.¹²

1. Today's Peiping *Chronicle* states that the Federal Reserve Bank has established a preferred list of imports which must be supplied with exchange before other imports. The preference will be given first to imports of military supplies, then to daily necessities, and then to assorted materials. Items constituting these categories are not specified.

2. It is obvious that the above preference list will give the bank great leeway in allotting import exchange to the detriment of American business and imports from the United States and to the benefit of those countries from which the Provisional Government desires to import.

3. Although Chefoo reports that the changes envisaged by the new regulations will remove the chief interference to trade between the United States and that consular district and although Tsingtao reports that relatively little anxiety is felt in consular district and that merchants will endeavor to strengthen the export-import link trade, the possibility appears to me to be stronger than ever that more stringent and more comprehensive restrictions including unfavorable interpretations of the regulations will be placed in effect. Accordingly I believe the outlook to be extremely discouraging.

4. In substance it would seem exchange and trade control will affect only certain third countries inasmuch as Japanese and Manchukuo currency are presumably to continue at par with the Federal Reserve Bank currency in which case the new restrictions would not operate as a bar to trade between North China and Japan and Manchukuo; there is a probability also that barter arrangements will be operative between trade and Germany and Italy as is the case in Manchukuo, leaving other countries and other parts of China to bear the brunt of supplying foreign exchange for Japanese and trade's needs.

5. A French banker stated today that his bank had received instructions from its head office not to cooperate with the Federal Reserve Bank's plans and he added that he had been reliably informed that British banks had received the same instruction. According to the same source, German interests have protested to Berlin against control measures in North China but have been told to "keep still".

¹² Neither printed.

Repeated Chungking and Shanghai. Code text by mail to Tientsin, Chefoo, Tsingtao and Tokyo.

LOCKHART

693.001/521 : Telegram

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

WASHINGTON, March 9, 1939—7 p. m.

54. Your 123, March 8, 4 p. m., trade restrictions in North China. The Department is inclined to agree with your view but raises for your consideration the question whether or not the reasons in favor of an informal approach are outweighed by the desirability of going along with the British wherever practicable in cases where no conflict of principle is involved. The Department desires that you exercise your discretion in the matter.

HULL

693.001/521a : Telegram

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

WASHINGTON, March 9, 1939—8 p. m.

55. Reference the Department's 52, March 4, 3 p. m. The following is suggested as argumentation to be included in the approach to the Japanese Foreign Office suggested in the telegram under reference, in case such approach has not been made, or in a supplementary memorandum to be presented to the Foreign Office.

The Government of the United States regards the export restrictions which have been announced in North China as the most comprehensive discrimination against the United States and other foreign countries and in favor of Japan which has yet been established in North China by Japanese authorities, and as a virtual nullification in that area of the Open Door so far as import and export trade is concerned. The proposed measures would automatically increase the price of exports by a large margin in terms of foreign currencies, and probably have the effect of reducing markedly exports to foreign countries other than Japan, and *pari passu* of reducing imports from those countries while leaving trade between that area and Japan virtually unrestricted. During the past year the exchange value of the currencies in circulation in North China has been considerably depreciated and prices in that area have become more or less adjusted to this depreciated value; if exports are quoted suddenly in terms of a new currency whose value is maintained by exchange control at an artificially high level in terms of foreign currencies North China's foreign trade will tend to suffer and imports to decline along with exports. Meanwhile it is clear that

Japanese trade will not only not be damaged by the proposed restriction but be benefited by the new measures. These considerations give added force to the objection which the American Government has repeatedly advanced to institution of trade or exchange control by Japanese authorities in North China, the basis of such objection being that all trade with North China would thereby become subject to Japanese discretion and that equality of opportunity would no longer be possible.

Repeated to Chungking, Tientsin and Tsingtao.

HULL

693.001/535

*Memorandum of Conversation, by Mr. Joseph M. Jones of the
Division of Far Eastern Affairs*

[Extract]

[WASHINGTON,] March 10, 1939.

Participants: Mr. Guy Holman, Assistant Vice President, National City Bank, New York
 Mr. Hornbeck¹³ Mr. Hamilton
 Mr. Livesey¹⁴ Mr. Jones
 Mr. Straight¹⁴

Mr. Hornbeck said that this Government had already made representations to the Japanese Government in regard to the exchange control and trade restrictions which were being imposed in north China and that our Embassy at Tokyo had been instructed to make renewed representations on this subject. Mr. Hornbeck stated also that we looked with favor upon the cooperative principle; that in the particular matter of resistance to the trade and exchange restrictions announced by the Japanese authorities it seemed desirable to us that the various foreign banks in north China, especially the American, British and French banks, keep in line with each other and maintain a common front. With regard to the question of one of the banks handling for one of its good customers an individual transaction, Mr. Hornbeck suggested that it would seem reasonable that the representatives in north China of the various banks get together and evolve some common and uniform procedure and practice. Mr. Hornbeck continued that the trend was toward greater willingness to protect national rights and interests abroad and that for obvious reasons a united front toward the Japanese was desirable and that action by American banks toward maintaining a solid front against the Japanese

¹³ Stanley K. Hornbeck, Adviser on Political Relations.

¹⁴ Of the Office of the Adviser on International Economic Affairs.

would be welcomed by this Government, although it was of course recognized that the bank had responsibilities of its own and had to protect its own interests.

Mr. Hamilton raised for discussion the complaints and implications which the Department has received from Chinese and other sources that the National City Bank is alleged to be inclined to cooperate with the Japanese and to tend to be non-cooperative with the Chinese. Mr. Holman indicated that he was well aware of these complaints. He said that when the Chinese Government raised the question in June of 1938 that the National City Bank was bearing down heavily upon the Chinese currency through sales in the Shanghai market, the National City Bank was able at that time to satisfy the Chinese Minister of Finance that the bank's exchange operations had not been in any way abnormal. With reference to the recent action of the National City Bank in Tientsin and Peiping in withdrawing from depositors the option of withdrawing their accounts in any local currency, Mr. Holman said that the bank's action was one of self-protection inasmuch as the bank had no idea what would happen to exchange rates and that in his opinion the other foreign banks were ill-advised not to have taken similar action. In regard to a recent complaint that the National City Bank was again bearing heavily on the Chinese currency through sales at Shanghai, Mr. Holman said that the National City Bank had made a study of the matter which indicated that during the past four months the National City Bank in China had been a net purchaser rather than seller of Chinese currency, and he stated that the rumor probably arose from the fact that the National City Bank shipped from Hong Kong to Shanghai certain stocks of Chinese Government notes which it had been holding since 1937 for Chinese Government banks. Mr. Hornbeck suggested that regardless of what might be the basis therefor the Chinese Government had had since 1932 the impression that the National City Bank was pro-Japanese and that it might be a good idea for Mr. Holman to place before the Chinese authorities the information which he had just presented to those at the conference in regard to the bank's recent exchange operations so that the bank might be relieved of the charge of bearing down on Chinese currency.

In response to a question by Mr. Hamilton, Mr. Holman stated that in his opinion the proposed British loan to support the Chinese currency would undoubtedly have a strengthening effect upon the Chinese currency generally but that he did not think that it would materially affect the currency situation in north China.

During the conversation Mr. Holman indicated at a number of points that the National City Bank of New York had been keeping in close touch with the Chase Bank at New York (which has a branch

at Tientsin) in regard to this whole situation. In reply to a question, Mr. Holman said that the Chase Bank knew of the interchange of telegrams of March 9 between Mr. Mackay at Tientsin and the National City Bank in New York; that the Chase Bank knew that he had planned to call at the Department this morning; and that upon his return to New York he would inform the Chase Bank of the discussion which had taken place here.

After the conversation reported above, Mr. Holman, in conversation with Mr. Hornbeck, said that some of his associates entertained the idea that, in the realm of policy in connection with the question of the "open door" in China, the most practical procedure would be for the interested governments to make their defense of the "open door" after the Chinese shall have regained control in China (implying that meanwhile any vigorous official efforts in defense of foreign—"open door"—interests in China should be suspended and opposing of the Japanese be avoided). Mr. Hornbeck replied that in our opinion such a deferring of the defense of the principle and practices of the "open door" might prove disastrous: anything which facilitates Japan's operations must tend to decrease the likelihood of a regaining by the Chinese of control in China; if the Chinese are defeated and the Japanese acquire undisputed control, the "door" will, according to all present indications, be closed, and the chances of getting it opened again would be small; therefore, the tendency is to discourage courses of action which would increase the difficulties of the Chinese and be helpful to the Japanese. Mr. Holman said that the National City Bank was inclined to favor, in various international situations, the principle of proceeding with business when and where available, without being inhibited by too much consideration of "theorizings".

693.001/522 : Telegram

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

TOKYO, March 11, 1939—2 p. m.
[Received March 11—6:40 a. m.]

131. Department's 54, March 9, 7 p. m., trade restrictions in North China. After carefully weighing the Department's suggestions I have decided to present our representations in a formal signed note which will be sent to the Foreign Office this afternoon. Our note No. 1207 dated March 11¹⁵ is based closely on the contents of the Department's 52, March 4, 3 p. m., and 55, March 9, 8 p. m.

¹⁵ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 831. For the Japanese reply of April 13, see *ibid.*, p. 833.

My British and French colleagues presented formal signed notes yesterday on the same subject.

Copies of all three notes will be forwarded by pouch unless I am otherwise instructed.¹⁶

Repeated to Peiping.

GREW

893.5151/579: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, March 11, 1939—2 p. m.
[Received March 11—7:30 a. m.]

126. Peiping's 122, March 8, 4 p. m.

1. President of Federal Reserve Bank announced yesterday, anniversary of founding of bank, that reserve for foreign exchange purposes totaled 80 million yuan for America and Europe and 100 million for Japan (and presumably Manchukuo). This latter is believed to represent the Japanese credit mentioned in Peiping's 119, March 7, 4 p. m.¹⁷ and will be used in financial trade with Japan and Manchukuo.

2. Local press announced that from today North China is divided into two areas, (a) Federal Reserve Bank currency area where possession of old legal tender is punishable (the least punishment being confiscation) and (b) "bandit area" where Japanese military will control the exchange of old legal tender for Federal Reserve Bank currency and where a further period of 2 months is to be allowed for such exchange.

3. Foreign Exchange Bureau of the Federal Reserve Bank was inaugurated today at Peiping with branches in main ports. According to the press, branch exchange bureaus are to be or have been established at Peiping, Tientsin, Tsingtao, Weihaiwei and Chefoo.

4. The Chinese dollar continued firm with the following nominal rates quoted by an American bank, six point twenty buying and six point fifty selling.

Manager National City Bank has informed me that the French, British and Belgian banks have agreed to adopt noncooperative attitude toward the new exchange and export measures and that his bank would for the time being, pending clarification and development of new factors, adopt the same position. I know from a wholly reliable source that strong pressure was exerted by the British bank to adopt this attitude but I believe that the exigencies of the situation might conceivably bring about a change in this policy.

¹⁶ British and French notes not printed.

¹⁷ Not printed.

Repeated to Chungking and Shanghai. Code text by mail to Tientsin and Tokyo.

LOCKHART

893.515/1378

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] March 11, 1939.

The French Ambassador called and referred to his conversation with me on March 4 in regard to the currency and exchange situation in north China. The Ambassador said that his Government had decided to make representations at Tokyo. In regard to the attitude of French banks in north China and the question whether his Government would leave to those banks decision with regard to the attitude they should take toward the new exchange regulations, the Ambassador said that his Government upon further consideration of the matter had come to the conclusion that it was very important in this situation that the foreign banks in north China take a common position and adopt a common attitude; that in as much as the British Government had urged British banks not to cooperate with the Peiping "Federal Reserve Bank", it seemed advisable to his Government that French banks be similarly advised.

I told the Ambassador that I was very glad that he had called; that I was on the point of telephoning the French Embassy in regard to American banks in north China and the attitude they should take; that a representative of the American banks had called at the Department to discuss the situation; and that we had informed this representative that it seemed desirable to us that the various foreign banks in north China, especially the American, British and French banks, keep in line with each other and maintain a common front in resistance to the trade and exchange restrictions announced by the Japanese controlled authorities. I said that our attitude in the matter seemed in general to be substantially the same as the attitude of the French Government which he had just been so good as to communicate to me. I said that we had pointed out to the representative of the American banks that while we of course realized that the banks had responsibilities of their own and had to protect their own interests, action by American banks toward maintaining a solid front against the Japanese would be welcomed by this Government.

M[AXWELL] M. H[AMILTON]

893.5151/582

The Department of State to the British Embassy

AIDE-MÉMOIRE

The receipt is acknowledged of the British Embassy's *aide-mémoire* of date March 8, 1939,¹⁸ containing the statement, with reference to the recent exchange control developments in north China, that the British Government has advised the British banks concerned not to cooperate with the Japanese authorities in the new measures any more than they find necessary in order to safeguard their own interests, that the British Government understands that there is a tendency in American banking circles at Tientsin to favor cooperation with the Japanese, and that the British Government trusts that if this tendency exists the United States Government will see its way to discountenance it. The *aide-mémoire* contains the further statement that the British Ambassador at Tokyo has been instructed to concert with the American and French Ambassadors with a view to making strong parallel protests to the Japanese Government, and the British Government expresses the hope that the American Government may see fit to send similar instructions to the American Ambassador at Tokyo.

Shortly after the receipt of the British Embassy's *aide-mémoire* a representative of American banking interests in north China called at the Department upon his own initiative to discuss the problem presented by the new trade and exchange restrictions in north China. He was on that occasion informed that in the matter of resistance to trade and exchange restrictions in north China this Government considered it desirable that the various foreign banks there, especially the American, British and French banks, keep in line with each other and maintain a common front in so far as might be compatible with the safeguarding of their individual interests.

With reference to the hope of the British Government that the Government of the United States might instruct its Ambassador at Tokyo to concert with his British and French colleagues with a view to making parallel protests, this Government on March 4 instructed the American Ambassador at Tokyo to make representations to the Japanese Foreign Office in regard to the matter and also suggested that he consult his British and French colleagues with the thought that they might wish to take similar but separate action. Again on March 9 the Department telegraphed the American Ambassador at Tokyo suggesting additional argumentation for use in his approach to the Japanese authorities.

WASHINGTON, March 13, 1939.

¹⁸ Not printed.

893.515/1364: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, March 13, 1939—4 p. m.

[Received 8:12 p. m.]

130. Peiping's 126, March 11, 2 p. m.

1. Local Chinese press has announced measures of "Provisional Government" to prevent the use of old legal tender banknotes. In substance, those who possess or transport currencies other than Federal Reserve Bank currency (with certain minor exceptions such as subsidiary notes of Meng Cheng Bank et cetera) or circulate or intend to circulate such currencies shall be subject to imprisonment (from 1 month to 10 years) or shall be fined (from \$500 to \$10,000) or both. Confiscation of old legal tender banknotes is also mentioned, as is confiscation of the agencies used in and for the possession, transportation and circulation of the old legal tender banknotes. These measures are promulgated for the period of 1 year from March 11.

2. Regulations to implement the above measures have been published. In substance, Chinese (including legal persons) in the "Federal Reserve Bank currency area" are to be subjected to the control of Chinese police organs acting in cooperation with Japanese gendarmes and this control extends to the search of Chinese banks, money shops, et cetera.

Provision is also made for the search for "important" criminals and for ascertaining the identity of and watching those Chinese who deal with third power nationals in this matter of using old legal tender banknotes to prevent third power nationals from collecting and monopolizing by every possible means old notes. While these regulations mention March 11 to 15 as the period for search, they are not restrictive as to searches beyond the latter date.

3. A member of the Embassy staff was informed by a French banker that the silver holdings of the foreign banks in Peiping amounted to 10,000,000 and those in Tientsin amounted to 40,000,000 Chinese dollars. An American banker states that his bank in Peiping holds no silver and that, although he is not informed as to the silver holdings of other foreign banks in Peiping, those in Tientsin are holding approximately 50,000,000 Chinese dollars.

Repeated to Chungking, Shanghai. Code text to Tientsin and Tokyo.

LOCKHART

893.5151/583a : Telegram

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

WASHINGTON, March 13, 1939—6 p. m.

59. In view of a press report emanating from Tokyo that you had made new representations to the Japanese Government with regard to currency measures taken in north China, the Acting Secretary, at the press conference on March 13, referred the correspondents to our note of October 6¹⁹ in which the issues were made clear and stated that you had reiterated the position established in that note, emphasizing the fact that this Government believes the currency measures in question are not in accord with the treaty rights of the United States and that they operate to discriminate against American trade interests in north China in favor of Japanese trade interests.

WELLES

393.115 Standard Vacuum Oil Co./90 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, March 14, 1939—9 a. m.

[Received March 14—7:30 a. m.]

51. In reply to this Consulate's request for berthing facilities for Standard Oil Company tanker, the Japanese Consul General has stated as follows:

"In reply, I have to inform you that, although the Japanese naval authorities concerned have paid due consideration about this matter in an endeavor to find some ways to afford any possible facilities, they have failed to come to a decision to open the wharf in question for some time chiefly due to the fact that the wharf is still actually being used for the military purpose".

Comparison of tone of this reply with that quoted in my telegram No. 31 of February 7, 4 p. m.²⁰ is respectfully invited.

SOKOBIN

893.515/1367 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, March 16, 1939—5 p. m.

[Received March 16—3:15 p. m.]

35. Communication from the Japanese Consul General dated March 14 states that from the 15th

¹⁹ *Foreign Relations, Japan, 1931-1941, vol. I, p. 785.*

²⁰ Not printed. After acknowledging the American Consul's letter, the Japanese Consul General replied: "I have the honor to inform you that I cannot comply with your request as no foreign [vessel] is allowed to enter the great harbor at present." (793.94112/221)

"Investigations will be carried on by the Japanese consular police at the border of the Japanese Concession to detect those who are in possession of those old currencies the circulation of which was prohibited by the Provisional Government of China on and after 11th March, 1939. It is hoped therefore that all those who wish to enter the Japanese Concession should not carry with them the prohibited currencies to avoid unnecessary complications."

Search for old notes was begun today not only at entrances to Japanese Concession but also at International Bridge and other points on boundaries of British and French Concessions, and several foreigners, including one American to my knowledge, were required to show that they had no old notes but were not searched.

At a Consular Body meeting today the Japanese Consul stated that it is the intention of the Japanese authorities to search foreigners only in case they are suspected of carrying large quantities of old notes for the purpose of nullifying the efforts of the "Provisional Government" to force the use of the Federal Reserve Bank notes; and that any such large quantity of old notes found in the possession of a foreigner will be temporarily detained and turned over to his Consular authorities, with the request that he be advised that such notes should not be carried into the areas under Japanese control.

At the instance of all the consular officers of career except the Japanese (who offered no serious objection), I have sent the following to the Japanese Consul General:

"I have the honor to acknowledge the receipt of your communication dated March 14, 1939 concerning the search of persons entering the Japanese Concession for possession of old notes which was discussed at a meeting of the Consular Body today and to enquire on behalf of my German, French, Belgian, British and Italian colleagues and myself whether it is the intention of the Japanese authorities to apply such search to our nationals whether in the Japanese Concession or in the other districts under Japanese control.

I have at the same time to state that while we fully recognize the right of the Japanese authorities to make whatever regulations they see fit regarding currency to be used in their Concession we cannot admit the right of the Japanese authorities to search our nationals for possession of the currency of a government which we recognize."

Repeated to Peiping, Chungking, by mail to Tokyo.

CALDWELL

893.515/1369 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 17, 1939—9 a. m.
[Received March 17—7:30 a. m.]

183. Department's 39, February 24, 3 p. m. On March 15, 7 p. m., the Minister for Foreign Affairs²¹ told me that he had received information from Paris that both the French and British banks in North China had been instructed not to deal in Federal Reserve Bank notes and he inquired whether American banks would follow a similar course. I replied that the position of the Department of State was that the American banks had responsibilities in the matter with regard to which the American Government was not in position to interfere. The Minister expressed the earnest hope that American banks would refrain from activities calculated to assist Japanese currency measures at the expense of the National currency and I replied noncommittally that I would keep his wishes in mind. I remarked that I would be particularly interested in learning just how explicit were the instructions issued to French and British banks. (The British Diplomatic Mission have expressed to me doubt whether British banks are prohibited by British law or regulations from dealing in Federal Reserve banknotes but seem to have no definite information on the subject.)

Repeated to Peiping, Shanghai, Tientsin.

PECK

893.61331/146

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

No. 1683

WASHINGTON, March 18, 1939.

SIR: There are enclosed copies of two letters under date February 25, 1939, from the Universal Leaf Tobacco Company and a copy of the Department's reply thereto in regard to the difficulties which the Universal Leaf Tobacco Company is experiencing at Tsingtao. There is enclosed also a copy of a memorandum of conversation between officers of the Department and officers of the Universal Leaf Tobacco Company.²²

The Embassy will note that the interference reported by the Universal Leaf Tobacco Company appears to be especially flagrant in that the Japanese military authorities insist that the company buy with foreign exchange a large amount of "Federal Reserve currency" before permission will be given for the company to engage in trans-

²¹ Wang Chung-hui.

²² Enclosures not printed.

actions involving the purchase of tobacco in Shantung and its sale in other parts of China. The company states that it is the only non-Japanese or non-Chinese firm engaged in this particular business and that the requirement of the purchase of "Federal Reserve currency" with American dollars does not apply to its competitors.

The Department desires that at the first appropriate opportunity you bring this case to the attention of the Japanese Foreign Office and ask that effective action be taken to remove the discrimination and interference complained of by the company.²³

Very truly yours,

SUMNER WELLES

893.515/1367 : Telegram

*The Acting Secretary of State to the Consul General at Tientsin
(Caldwell)*

WASHINGTON, March 21, 1939—7 p. m.

14. Reference last substantive paragraph of your 35, March 16, 5 p. m. Department raises the question whether the present situation in north China or the limited authority that can be lawfully exercised in the concessions at Tientsin by the powers holding those concessions forms any sound basis for the statement made by you on behalf of the consular officers of career at Tientsin excepting the Japanese, that you "fully recognize the right of the Japanese authorities to make whatever regulations they see fit regarding the currency to be used in their concession". Please inform Department of the grounds upon which the quoted statement was based.

With respect to the question of search the Department suggests that if a similar situation in future should give rise to the need of a statement of our position, such statement should not be limited to the denial of Japanese right to search Americans for a specific purpose but should be based on the general principle that this Government does not admit any right of Japanese authorities to search American citizens in China or to seize the property of American nationals in China.

Peiping please repeat by mail to Tokyo.

Repeated to Peiping and Chungking.

WELLES

²³ In despatch No. 3886, May 10, the Ambassador in Japan reported that representations pursuant to this instruction were made to the Japanese Foreign Office on May 4 (893.61331/150).

393.115/587 : Telegram

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

TOKYO, March 23, 1939—2 p. m.

[Received March 23—6:13 a. m.]

141. The Vice Minister for Foreign Affairs asked me to come to see him today and told me that with a desire to convenience foreign trade and shipping the Japanese authorities in China had decided to reopen the great harbor at Tsingtao to vessels of third powers on March 25 subject to the following restrictions, these temporary restrictions being necessary to preserve secrecy in the case of occasional military movements.

"1. Use by vessels of third powers to be temporarily restricted to berths numbers 4 and 5 on mole No. 1 (approximately 220 meters) for the loading and unloading of general cargo and mole No. 4 for the discharge of oil and other inflammable cargo only, such use being made in connection with Japanese and Chinese vessels. Restrictions on use of berths may be extended further in case of military necessity.

2. Use of godowns to be prohibited temporarily, except for the purpose of customs inspection. For this purpose a godown will be provided by the Tsingtao Harbor Company.

3. Labor for loading and unloading to be restricted to coolies authorized by the Harbor Company.

4. Carriage of goods within harbor enclosure to be permitted only to carriers holding permits from the Harbor Company.

5. Landing and boarding of passengers to be prohibited during nighttime loading and unloading oil.

6. Passengers, merchants, seamen et cetera holding permits issued by Japanese authorities only to be permitted to board and land from ships lying at berths."

Repeated to Peiping for Tsingtao and to Shanghai for Chungking.

GREW

893.515/1380 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, March 25, 1939—11 a. m.

[Received March 25—8:10 a. m.]

44. Department's 14, March 21, 7 p. m. In reply to communication which I sent on March 17 regarding questioning of Americans concerning possession of old notes, Japanese Consul General replied on March 23 that "upon representations made by this Consulate General manifests were issued to the Chinese Police Bureau through the military authorities to cease the questioning and searching of American citizens as to the possession of old notes".

This morning I have received the following from Japanese Consul General in reply to letter of March 16 sent as Senior Consul: "The search of persons entering the Japanese Concession for possession of old legal tender notes has been discontinued as from yesterday, 23rd March, in this connection I would ask you to convey to our colleagues my sincere appreciation of their cooperation in the matter of preventing the circulation of old notes in the Japanese Concession". This statement makes no reference to areas other than the Japanese Concession, but I have been assured orally by the Japanese Consulate General that it is applicable to other areas under Japanese military control.

I have received no complaints from Americans regarding this matter during the past week and believe that they have encountered little difficulty, although I understand from some informal conversations that in some cases they have been asked whether they had old currency, and in one case 20 cents local currency was seized. I have not heard of any other seizure of old notes in the possession of any American and the case mentioned in my 35, March 16, 5 p. m. involved only inspection of a billfold which was produced on demand at a bank.

Repeated to Chungking, Peiping, Tokyo.

CALDWELL

893.515/1369: Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, March 25, 1939—noon.

55. Your 183, March 17, 9 a. m., and Department's 91, March 14, 6 p. m., to Shanghai.²⁴ On March 21 an officer of the Chinese Embassy called at the Department and communicated certain information which the Embassy had received from the Chinese Government in regard to the currency situation in North China and stated that the Chinese Government understood that the British Government had advised British banks in North China not to cooperate with the new exchange control system and that the Chinese Government hoped that the American Government would similarly advise American banks.

On March 23 an officer of the Department informed the Chinese Embassy orally that we had talked with representatives of the American banks and had made to those representatives the statement of views of which account is given in the Department's telegram to Shanghai No. 91, March 14, 6 p. m., paragraph 3.²⁵

HULL

²⁴ Latter not printed.

²⁵ Not printed, but see memorandum by Mr. Joseph M. Jones of the Division of Far Eastern Affairs, March 10, p. 376.

893.515/1331 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, March 25, 1939—noon.

[Received 5:38 p. m.]

45. Department's 14, March 21, 7 p. m. Statement regarding rights of Japanese in their Concession was drafted by British Consul General and accepted without question or discussion by all consular representatives but I am not sure that any sound basis for it can be found. I have made inquiry of the British Consul General and will telegraph later if anything of value is ascertained.

In view of the information contained in my 44, March 25, 11 a. m., no further representations regarding this matter seem to be required at present but if they should become necessary they will be based on the second paragraph of the Department's telegram under reference.

Repeated to Peiping, Chungking.

CALDWELL

693.002/864

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

[Extracts]

No. 2085

SHANGHAI, March 29, 1939.

[Received May 2.]

SIR: I have the honor to report briefly on certain parts of a recent publication of the Inspectorate General of the Chinese Maritime Customs which it is thought may be of interest to the Department. This publication, *The Trade of China, 1938, Introductory Survey*, was released for publication on March 23, 1939 . . .

In summary, it is suggested that this *Introductory Survey* of China's trade for 1938 provides information from which generalizations may be made regarding the effects of the first full year of hostilities upon the foreign trade of China. It indicates Japan's steadily increasing power, by the occupation of China's ports, fixing of its tariffs, detention of its Customs revenues, and control, by means of blockade and other restrictions, of its exports, to exert pressure upon the Chinese Government and to displace the trade of other nations in China. It shows that these measures have already brought about a large increase in Japanese trade, both proportionately and in actual value, and have caused decreases in the trade of each of its important rivals. The report brings out the significant fact that in North China where Japanese control is most complete the benefit to Japanese trade and the damage to the trade of other nations is the greatest. The

most disturbing fact brought out, however, is that Japan has caused the United States to suffer the greatest loss of China trade suffered by any country and has succeeded in displacing the United States as the leading nation in China's trade.

Respectfully yours,

C. E. GAUSS

600.939/297 : Telegram

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

WASHINGTON, April 5, 1939—5 p. m.

83. Reference Peiping's 159, March 29, 3 p. m.,²⁶ in regard to restrictions in north China upon the shipment of furs by parcel post.

Upon the basis of the telegram under reference and other information supplied you by the Embassy at Peiping the Department desires that you make appropriate representations at the Japanese Foreign Office.

Repeated to Shanghai, Chungking and Tientsin.

HULL

793.94112/241

The Chargé in China (Peck) to the Secretary of State

No. 2002

PEIPING, April 7, 1939.

[Received May 2.]

SIR: I have the honor to refer to the Embassy's despatch No. 1920 of February 9, 1939, and its enclosures,²⁷ in regard to the representations made by this Embassy to the Japanese Embassy at Peiping, against the regulations issued by the Japanese military at Shihchiachwang restricting the shipment up-country of certain commodities, notably kerosene.

With reference to the last paragraph of the above-mentioned despatch, there is enclosed a copy of despatch No. 744 dated March 2, 1939, together with a copy of its enclosure, received from the Consulate General at Tientsin,²⁸ indicating that the Japanese denial of the existence of such restrictive regulations is not in accordance with the facts and referring to the Chinese version of the regulations, and translation thereof, which were previously forwarded to this Embassy.

Following the receipt of this despatch from Tientsin, the Embassy addressed a second note to the Japanese Embassy, dated March 13,

²⁶ Not printed.

²⁷ None printed.

²⁸ Neither printed.

1939, a copy of which is enclosed,²⁹ reiterating the complaint of the Standard-Vacuum Oil Company that its business is still being seriously restricted by the Japanese regulations.

In as much as the Japanese Embassy had virtually denied the existence of these restrictive regulations in its note to this Embassy of February 2, 1939,²⁹ this Embassy's note of March 13, 1939, evidently required clarification and in consequence Mr. Yaguchi, Third Secretary of the Japanese Embassy, called upon Mr. Reed³⁰ and asked whether any additional information could be given which would assist the Japanese Embassy in bringing about a complete understanding of the case. To complete the Department's records there is enclosed a memorandum²⁹ of this conversation between Mr. Yaguchi and Mr. Reed, from which it will be noted that the former stated that on occasions local Japanese military units issued orders without the knowledge of the Japanese military headquarters.

In conversation today, Mr. Yaguchi informed Mr. Reed that a reply to this Embassy's note of March 13, 1939, was being drafted. He volunteered the information that the reply contained substantially the following: that the restrictions did exist; that the object was the military necessity of preventing the flow of supplies to enemy forces; that it was regretted that American interests had been affected; and that it was hoped that the American interests would take cognizance of the fact of military necessity. Mr. Yaguchi added that perhaps some formula could be found which would enable the American interests to carry on their business unrestricted. A copy of the note will be forwarded to the Department when received.³¹

Respectfully yours,

For the Chargé d'Affaires ad interim:

FRANK P. LOCKHART
Counselor of Embassy

893.5151/591 : Telegram

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

WASHINGTON, April 12, 1939—noon.

93. Reference Department's instruction No. 1683, March 18, in regard to difficulties which the Universal Leaf Tobacco Company is experiencing at Tsingtao and which should be received by you shortly, and Tsingtao's 84, April 4, 3 p. m.,³² in regard to allotments of Shantung's tobacco crop.

Department suggests that you may in your approach to the Japanese Foreign Office wish to make use of the information contained in

²⁹ Not printed.

³⁰ Charles S. Reed, II, Third Secretary of Embassy in China.

³¹ Dated April 21; not printed.

³² Letter not printed.

paragraph 2 of Tsingtao's telegram under reference and to register objection to the institution of an allotment system.

Repeated to Chungking and Tsingtao.

HULL

701.9411/1157a : Telegram

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

WASHINGTON, April 15, 1939—1 p. m.

95. Your 159, March 31, 6 p. m.,³³ paragraph numbered 2, last sentence.

1. Should the Japanese Government decide to send a naval vessel to visit the San Francisco or New York exposition and should there develop in Japan a disposition to feature in connection with such a visit a purpose to express thanks for the visit of the *Astoria*,³⁴ the Department suggests that in your discretion you endeavor, as opportunity presents itself, to discourage the stressing of such a purpose by your indicating that such action would, in view of the disfavor with which the American public would regard what it would consider as a political capitalizing of a courtesy gesture and an overplaying of the principle of "good will", tend to react unfavorably upon Japanese-American relations.

2. With reference to the project mentioned in Chungking's 217, March 28, 11 a. m.,³⁵ for a visit by Prince Konoe to the United States, the Department feels that in view of the general state of feeling in this country toward Japan considerations against a visit of this character at the present time are of even greater weight than those which obtained in 1933 (see your 149, October 3, 2 p. m., 1933,³⁶ and the Department's 89, October 6, 1933³⁷). If and as this subject comes up for discussion between you and Japanese officials it is suggested that you point out that more might be expected to be accomplished toward improving the relations between the United States and Japan through action by the Japanese Government toward putting an end to violation by Japanese agencies of the rights and interests of the United States in China than through any mere explanations or assurances conveyed to the American Government and people through the medium of good-will missions or otherwise.

HULL

³³ Not printed.

³⁴ See vol. iv, pp. 455 ff.

³⁵ *Ante*, p. 152.

³⁶ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 123.

³⁷ *Ibid.*, p. 125.

600.939/307 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, April 18, 1939—noon.

[Received 3:15 p. m.]

191. Peiping's 159, March 29, 3 p. m.³⁸ and Department's 83, April 5, 5 p. m. Tientsin's despatch 7712 [776], April 15th,³⁸ reports that postal authorities have received instructions permitting the use of parcel post facilities for transmission and delivery of certain furs. The types are those in which the Fur Exporters Association is said to be especially interested.

Repeated to Tokyo and Chungking.

LOCKHART

893.61331/140 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, April 19, 1939—9 a. m.

[Received April 20—4:30 a. m.]

81. A representative of the Universal Leaf Tobacco Company has informed the Consulate that he learns the Japanese authorities are indicating opposition to a plan on which the company has been working for some time to utilize the organization of the well known Japanese trading firm Okura and Company for purchase and transportation of 1939 tobacco crop. It has been indicated that the Universal must enter the combine of Japanese firms mentioned in the Embassy's telegram No. 623 of October 15, 10 a. m., 1938,³⁹ and come to some sort of agreement with these firms.

Repeated to Chungking, Peiping. By mail to Tokyo.

SOKOBIN

893.6363/209 : Telegram

The Second Secretary of Embassy in China (Clubb) to the Secretary of State

NANKING, April 26, 1939—11 a. m.

[Received 11:45 a. m.]

28. Foreign rights and interests. A report emanating from an informed Japanese source indicates that there is under discussion among concerned Japanese organizations a proposal for the establishment of a "sales control" system for the marketing of petroleum prod-

³⁸ Not printed.

³⁹ *Foreign Relations*, 1938, vol. iv, p. 67.

ucts, to begin functioning early in May. The project reputedly would lead to the effecting of a semimonopolistic control of distribution from Shanghai. The concerns participating in the discussions are reported by Socony to be Taiheiyoko, Fucumhow (acts as agent for Asiatic Petroleum Company), Idemitsu, connected with Nippon Oil Company, acts as agent for Standard Vacuum Oil Company in Shanghai; (big importer of petroleum products into China), Mitsui Bussan Kaisha, and Tehsheng Hao (Sino-Japanese).

The project is said to have its origin in the feeling of certain Japanese interests that occidental concerns have recently been obtaining far too large a share of trade in this part of China. A major portion of the chief articles of commerce, comprising petroleum products, cigarettes, matches, cotton goods and soap, is supplied by non-Japanese foreign firms. (Japanese business houses have been making some inroads into the match field, but are said to be at present unable to take full advantage of existing opportunities in the market for cottons; in the other fields American and British products dominate.) A Japanese consular officer is said to have recently made a study of market conditions existing in the various Yangtze ports and to have reported that about 80 percent of the foreign goods sold comprise non-Japanese products. It is reported that the Japanese diplomatic representatives in China are opposed to the imposition of further restrictions on occidental interests but that certain Japanese commercial interests, suffering from competition both among themselves and with British and American interests, with the support of the army is demanding a setup which will give them a more substantial trade advantage. The project seems to have derived its inspiration locally rather than in Japan. If given effect it would presumably bring the occidental oil companies ultimately face to face with the same fate they met in Manchukuo.⁴⁰

It will be noted that the project even as reported is still in an amorphous stage. Any further pertinent information which may be obtained will be promptly reported.

Repeated to Peiping, Shanghai, to Tokyo by mail.

CLUBB

893.516/590 : Telegram

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

SHANGHAI, April 28, 1939—1 p. m.

[Received April 28—10:20 a. m.]

316. The Counselor of the Japanese Embassy called on me yesterday afternoon, in the absence of any American Embassy representative

⁴⁰ See *Foreign Relations*, 1937, vol. iv, pp. 723 ff.

here, and informed me that the "Reformed Government" is establishing a bank to be known as the Huahsing Commercial Bank with head office at Shanghai and branch offices at "important places"; capital to be \$50,000,000 fully paid up; bank to deal in foreign exchange, general banking business, and to issue bank notes convertible to foreign currency and to national currency; reserves to be (1) foreign currency, (2) gold and silver, (3) prime foreign exchange bills, and (4) bills on export advances. The amount of the first three items of reserves to be not less than 60% of the amount of the notes issued. One half of the capital is to be paid in by Japanese banks and the other half by the Reform Government. (He later said that the latter half will be loaned by Japanese banks to the "Reform Government" for the purpose.) A Japanese named Washio, formerly a director of the Yokohama Specie Bank and later a director of the "Manchukuo" Central Bank, will be vice president of the new bank. He did not disclose who will head the bank. He said that Washio is now calling on the managers of the foreign banks at Shanghai to inform them of the plans and to endeavor to arrange for the acceptance of the bank notes of the new bank, it being proposed to make deposits of national currency in the several foreign banks to secure them in such acceptance. Bank is to be established May 1st but will not begin operating until later.

The Counselor of Embassy asserted that the new bank notes are to have the same value as national currency and are to be convertible into national currency and foreign currencies. He denies any intention to set up a new currency in this area and in reply to a blunt question said there was no intention to control exports or foreign export credits, but I accept these statements with considerable reserve.

Consulate General will report developments and local bank reactions.

Repeated to Chungking and Peiping; by air mail to Tokyo, mail to Nanking.

GAUSS

493.11/2268

*The Counselor of Embassy in Japan (Dooman) to the Chief of the American Bureau of the Japanese Foreign Office (Yoshizawa)*⁴¹

TOKYO, April 28, 1939.

MY DEAR MR. YOSHIKAWA: Our records indicate that on February 3, 1938, I called on you and asked your good offices toward persuading the military authorities in Peiping to evacuate Tsinghai University,

⁴¹ Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 3865, May 5; received May 29.

in which there is an American interest arising out of the fact that the University was founded in consequence of the remission by the United States Government of the major portion of the Boxer indemnity and the funds necessary for its maintenance have been obtained by reason of this action on the part of the United States. You may recall that you undertook to discuss the matter with the War Office. The conditions at the University subsequent to our conversation are such as to raise grave doubts with regard to the intention of the Japanese military authorities toward preserving Tsinghua University as an institution of learning. Although proposals have been received by the University for the sale of equipment and furnishings, the University authorities were not in any position to respond affirmatively; and there has subsequently developed an apparent systematic effort to disperse the books, scientific instruments, and other equipment and furnishings. We understand that Mr. Robert Winter of the University has already supplied Mr. Yaguchi, of the Japanese Embassy at Peiping, with considerable information on this subject. Mr. Winter notes that on four different occasions detachments of Japanese troops searched the University and carried away large quantities of books and instruments. He notes also that the interior of the chemistry building has been destroyed; that all available scrap iron has been shipped away; that machinery in the Engineering Building has been shipped away; and that books and scientific instruments which were taken away from the University are periodically appearing in various second-hand shops in Peiping.

I think you will agree with me that the state of affairs which has thus far prevailed should be remedied without further delay.

Sincerely yours,

EUGENE H. DOOMAN

893.515/1387 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 1, 1939—9 a. m.

[Received May 1—7 a. m.]

295. Following received ⁴² for transmission:

["In recent weeks there has been considerable drain of foreign exchange at Shanghai due to buying by various foreign banks. In the case of one British bank which has bought far beyond legitimate need official complaint has been made to London with a view to exertion of restraining pressure. The three American banks, namely, National City, American Express Company, and Chase, have also bought at times.

While there is no control it is clearly in the interest of all foreign banks to cooperate in every possible way to maintain the spirit of

⁴² See the Chargé's telegram No. 296, May 1, 10 a. m., *infra*.

the gentlemen's agreement and to help to sustain the Chinese currency because if it should seriously break then the way would be smoothed for introduction of Japanese-controlled currency and practical exclusion of foreign banks and drastic curtailment of non-Japanese trade. The Japanese currency measures in North China have been having a very unsettling effect upon the Chinese currency. Nevertheless, the Japanese-sponsored currency is meeting serious difficulties and it would seem that the best way to discredit it and thus end the climax of success for similar currency adventures in Central China and thus maintain a measure of opportunity for other than Japanese trade with the occupied area is to do everything that can be done to sustain the Chinese currency.

It is hoped that the American authorities may be in position to request the New York offices of the above-mentioned American banks to instruct their Shanghai and other branches especially in North China to cooperate fully in support of the Chinese currency and to try to limit sales of exchange to the amount of cover obtainable other than from the stabilization fund and to discourage prospective buyers of exchange as much as possible."

Repeated to Peiping and Shanghai.

PECK

893.515/1388 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 1, 1939—10 a. m.

[Received May 1—7 a. m.]

296. The entire text of my 295, May 1, 9 a. m., was drafted by Dr. Young⁴³ and handed to me April 30 with the request that it be sent to the Department. While it apparently embodies the views of Young himself and does not purport to emanate from the Minister of Finance, nevertheless they are in close collaboration in currency matters and I infer the statement was prompted by Kung.

Repeated to Peiping, Shanghai.

PECK

893.516/642

*Memorandum by Mr. Joseph M. Jones of the Division of Far Eastern Affairs*⁴⁴

[WASHINGTON,] May 3, 1939.

The Department has been informed that there was established in Shanghai on May 1 a new bank known as the Huahsing Commercial Bank and that the Minister of Finance of the so-called "Reformed

⁴³ Arthur N. Young, American Adviser to the Chinese Ministry of Finance.

⁴⁴ Notation by the Adviser on Political Relations (Hornbeck): "Used as basis for statement made to Mr. Holman by 'phone, V-5-39". Mr. Holman represented the National City Bank of New York.

Government" at Nanking has been named as Governor of the bank. The details of the organization of the new bank are probably known to the National City Bank, but, in case the National City Bank would like to have the information which the Department has received on the subject, the details are as follows:

[Here follows summary based on telegrams received.]

The Department is naturally interested in the position which American banks with branches in Shanghai propose to take in regard to the new bank and its note issue. It is our impression that the establishment of the new bank is an initial step in a Japanese program for the establishment in central China of financial and economic control similar to that which the Japanese have attempted to set up in north China. It does not seem to the Department that advantage would accrue to American or other foreign banks through assisting the new bank in the launching of its note issue. Based on such information as is now available, the Department's position in regard to the new currency developments in Shanghai is identical with its position in regard to the Japanese trade and exchange control measures in north China. This position was indicated to Mr. Holman in the discussion which he had on March 10 with officers of the Department. While we recognize that American banks have responsibilities of their own and have to protect their own interests, the Department would welcome the maintenance by foreign banks in China of a united front against the new Japanese financial measures and the Department hopes that American banks in central China will see their way clear to refraining from action which might assist the Japanese in establishing the new bank and launching the new currency.

Mr. Holman will recall that during the course of his conversation on March 10 with officers of the Department there was a discussion of complaints that the National City Bank was bearing heavily on the Chinese currency through sales at Shanghai. There has been received no complaint from the Chinese Government, but reports have been received by the Department that there has been in recent weeks a considerable drain of foreign exchange at Shanghai and that this has been due to buying by foreign banks in general. The Department of course has no information as to whether or not the foreign banks have been buying beyond their legitimate needs but we believe that the National City Bank would be interested in being informed of the reports which have come to the Department's attention. The Department hopes that American banks will in so far as practicable refrain from action which would have the effect of weakening the position of Chinese Government currency.

In as much as Mr. Holman informed us when we talked with him on March 10 that the National City Bank was keeping in close touch

with the Chase Bank in regard to the currency situation in north China and in as much as we assume that this is being done also in reference to the currency situation at Shanghai, the Department would appreciate it if Mr. Holman would be so good as to bring to the attention of the Chase Bank in New York the observations made to Mr. Holman, as set forth hereinbefore.

893.516/595: Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, May 4, 1939—1 p. m.
[Received May 4—8:40 a. m.]

605. In the course of a conversation yesterday the British Treasury referred to the creation by Japan of a new reserve bank in Shanghai and summarized the British attitude briefly as follows: there were still two schools of thought within the British Government, one of which advocated a policy of retaliation against Japan in cooperation with the United States to frustrate such discriminatory Japanese measures; the other believed that to help China to help herself was still the most practical policy having regard to the present vulnerability of Great Britain in the Far East. The British Treasury implied that it belonged to the latter school of thought; that it was to be expected when the experiment of the reserve bank of North China had been unsuccessful, mainly due to the stupidly high rate which was fixed, that the Japanese would try again at a more suitable rate. Pending developments, the British Treasury seems satisfied to take no active steps beyond perhaps lodging protests.

KENNEDY

893.516/593: Telegram

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

WASHINGTON, May 4, 1939—1 p. m.

143. Reference your 316, April 28, 1 p. m., 319, April 28, 5 p. m., 322, April 29, noon, and 328, May 1, 4 p. m.⁴⁵

1. There are indications in the telegrams under reference that the funds to be used for financing the bank are customs revenues supposedly held in a "suspense account" in the Yokohama Specie Bank. The Department would like to have such further information as you may be able to obtain as to whether the customs revenues are in fact being so used and if so your opinion whether representations to the Japanese

⁴⁵ Telegrams Nos. 319, 322, and 328 not printed.

Government against disposal in such manner of customs revenues would be advisable at this time. The Department would also appreciate receiving any information you may be able to furnish in regard to the probable amount of customs revenue which has accumulated in the Yokohama Specie Bank from customs collections in central China, how much of this revenue remains in the form of Chinese currency, and how much, if any, has been converted into specie or foreign exchange.

2. It appears that, with a view to launching the new currency successfully, the Japanese officials concerned desire to have foreign banks accept deposits in the new currency and as an inducement have promised to deposit with those banks more than enough Chinese national currency to cover any amount of the new notes accepted by those banks. It is not apparent to the Department that advantage would accrue to American or other foreign banks in thus assisting the new bank in the launching of its note issue. The Department concurs in your skepticism in regard to Japanese statements that there is no intention to set up a new currency or to control exports and export credits.

3. In connection with the trade and exchange control measures instituted in north China on March 11, 1939, the Department informed an official of the National City Bank (and indirectly the Chase Bank) that the Department would welcome the maintenance by foreign banks in China of a united front against such measures, and so far as the Department is aware, the American banks in north China are cooperating with other foreign banks in resisting the trade and exchange restrictions which have been established there. Officials of the National City Bank and of the Chase Bank at Shanghai are probably aware of the Department's attitude in this matter.

4. The Chinese Embassy here has informed the Department orally that in the opinion of the Chinese Government the proposed currency move in Shanghai, if successful, would be an entering wedge for Japanese financial control and would operate against China's interests as well as foreign interests; and that it would be harmful because of its inflationary effects. The hope was expressed that the American Government would see its way clear to ask American banks not to accept the new notes and not to cooperate with the new bank or the new currency. The Embassy was informed that the Department is studying the whole matter.

5. It is suggested that you state informally to officials of American banks in Shanghai that, based on such information as is now available, the Department's position in regard to the new currency developments in Shanghai is identical with its position in regard to the Japanese trade and exchange control measures in north China outlined in paragraph 3 above and that the Department hopes that American banks in

central China will see their way clear to refrain from any action which might assist the Japanese in establishing the new bank and launching a new currency.

6. You are of course authorized in your discretion to confer with your British and other colleagues.

Repeated to Chungking and Peiping. Shanghai please repeat to Tokyo.

HULL

893.516/596 : Telegram

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

SHANGHAI, May 4, 1939—7 p. m.

[Received May 5—6 a. m.]

347. Reference paragraph 2 of my number 322 of April 29, noon.⁴⁶ Despite reported promises of manager of Chartered Bank as the senior British bank that the British banks would consult with the American banks with a view to a common policy in regard to acceptance of new Huahsing bank notes, they failed to consult and apparently at the instance of the manager of the Hong Kong and Shanghai Bank the principal British banks have decided to have nothing to do with the Huahsing Bank or its notes. The American banks were not even informed of the decision of the British banks before it became generally known to the latter's customers on May 1st. It is reported that the British banks intend to base their refusal to deal in Huahsing bank notes on the British orders in council (see this Consulate General's telegram 645, November 5, 9 p. m. [*a. m.?*], 1935⁴⁶). It will be recalled that early in March of this year the British banks in North China announced their policy in regard to Federal Reserve Bank notes and without having first consulted the American banks sought to bring pressure on the latter to adopt the same attitude in the interest of a "common front".

American bankers here now seem to feel that they may eventually find it necessary to handle the Huahsing bank notes for their customers on a cautious quick conversion basis although it is believed that they will probably decline to accept deposit accounts from the Huahsing Bank for the present at least. They seem to feel that so long as the Huahsing bank notes are freely convertible to national currency or foreign exchange refusal of the foreign banks to handle the notes would not greatly hinder their circulation.

While Counselor Morishima told me that there was no intention to establish any export or foreign exchange control, as in the North, it is noted that Japanese spokesmen in answering questions of press

⁴⁶ Not printed.

correspondents say there is no intention to do so "for the present" and this is understood to be the attitude taken by the Japanese in conversations with the foreign bankers. American bankers and other competent observers feel that the major purpose of introducing the new bank and bank notes is to facilitate the introduction of trade controls at a later date. This view is understood to be shared by the Commercial Counselor of the British Embassy.

Repeated to Peiping, to Chungking. Code text by mail to Tokyo.

GAUSS

893.516/599 : Telegram

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

SHANGHAI, May 9, 1939—6 p. m.

[Received May 10—7:45 a. m.]

367. Reference Department's number 143, May 4, 1 p. m. It has been ascertained confidentially from the Customs that as of April 15 this year customs revenues deposited in the Yokohama Specie Bank or other Japanese banks totaled \$199,056,000 Chinese national currency including the Chinese currency equivalent of 9,484,000 customs gold units. Of the grand total \$95,830,000 is held at Shanghai, \$80,000,000 at Tientsin and the balance at other small North and South China ports. The customs receive regularly from the Japanese banks statements of account verifying such deposits. Customs have no official information that any of the funds have been loaned or paid over to any puppet regime or otherwise disposed of or hypothecated nor have they any official information that the funds may have been converted into foreign exchange by the banks, the deposits and the bank obligations being in Chinese national currency.

2. Consul Smith of my staff recently had a conversation with Shimada, Commercial Secretary of the Japanese Embassy, who said that since about September of last year the Yokohama Specie Bank has been converting national currency funds into foreign exchange as rapidly as this could be done without disturbing the market, the bank wishing to hold its funds in a more secure form than national currency which might depreciate, the Chinese Government up to that time having paid its loan and indemnity obligations from other sources and there being little likelihood that the Anglo-Japanese customs arrangement⁴⁷ would be implemented in the near future.

3. Asked whether there had been any loans against the customs funds and whether any portion of them had been expended, Shimada said that up to the present no loan has been made against funds repre-

⁴⁷ Signed at Tokyo, May 2, 1938; see telegram No. 584, April 26, 1938, 3 p. m., from the Consul General at Shanghai, *Foreign Relations*, 1938, vol. III, p. 683.

senting the foreign loan quotas for the occupied ports; that there had been many requests for loans from the new Chinese Governments; but that while plans have been made for the utilization of surplus customs revenues over and above the foreign loan quotas, there has been very little if any actual expenditure from such funds and in no case would even the excess or surplus funds be expended except on carefully approved reconstruction projects.

4. It is not possible to reconcile the foregoing with the report that the "Provisional Government" at Peiping last year received customs revenues to the extent of \$73,000,000 as stated in the Japanese press despatch cited in my telegram No. 319, April 28, 5 p. m.,⁴⁸ nor with a report in the Chinese press that the Vice Minister of Finance of the "Reformed Government" at Nanking stated to the press on April 19 that the Reformed Government's revenues are improving, the revenue from the customs now being \$12,000,000 a month. These reports by the puppet regimes may have been meant for Chinese consumption. It is rather surprising that the Japanese should have allowed them to be circulated as they immediately raise questions as to the disposition being made of customs revenues.

5. The fact is however that the Japanese banks have received very heavy deposits of Chinese national currency from customs sources and they are able to use them in the same manner as deposits from any other source, for purchase of foreign exchange, loans to other banks or loans to puppet regimes. We cannot prove that any of the customs deposits have been so used but no observer here believes that the national currency deposits are lying idle in the Japanese banks.

6. The amount of foreign loan and indemnity quotas due from Japanese occupied ports figured by the customs on the same basis as quotas from Chinese ports is approximately 74,000,000 dollars Chinese currency.

Repeated to Chungking and Peiping. Code text by air mail to Tokyo.

GAUSS

893.516/600 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 10, 1939—5 p. m.

[Received May 10—1:40 p. m.]

323. Reference Department's telegram No. 143, May 4, 1 p. m.; and my telegram No. 320, May 10, 2 p. m.⁴⁹ The Minister for Foreign Affairs this morning orally expressed to me the hope of the Chinese

⁴⁸ Not printed.

⁴⁹ Latter not printed.

Government that American banks would do nothing that would assist the newly formed Huahsing Bank in Shanghai which he said had been created by the Japanese as a means of attacking Chinese currency.

Repeated to Peiping, Shanghai.

PECK

893.5151/600

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] May 10, 1939.

Participants: Mr. Nisiyama, Japanese Financial Commissioner at New York
Mr. Hamilton
Mr. Ballantine⁵⁰

Mr. Nisiyama, Japanese Financial Commissioner at New York, called by appointment made by Mr. Suma of the Japanese Embassy. Mr. Nisiyama was accompanied by Mr. Ukawa of the Japanese Government's Financial Commission at New York.

This was Mr. Nisiyama's first call on me, and during the first minutes of his call we exchanged conventional remarks during the course of which Mr. Nisiyama stated that he had been for several years a director of the Yokohama Specie Bank stationed in New York and that some three weeks ago the Japanese Government, desirous of increasing its financial representation in the United States, had asked him to accept the position of Financial Commissioner. He said that he had accepted the position. After these remarks Mr. Nisiyama, somewhat to my surprise, brought up the question of exchange control in north China. He inquired whether the American Government had made representations to the Japanese Government on the subject. I replied in the affirmative. He then inquired whether the Japanese Government had made reply to these representations. I then said that our general representations had been included in a note of October 6;⁵¹ that the Japanese Government had made reply to that note;⁵² that thereafter this Government had sent a further comprehensive note of December 31 [30];⁵³ and that that constituted the record of the exchange of communications.

Mr. Nisiyama said that he understood that American and British banks in north China were prepared to accept the notes of the Federated Reserve Bank set up by the Peiping regime but that they hesitated to do so because of advice given them by the American and

⁵⁰ Joseph W. Ballantine, Assistant Chief of the Division of Far Eastern Affairs.

⁵¹ *Foreign Relations, Japan, 1931-1941*, vol. 1, p. 785.

⁵² Dated November 18, 1938, *ibid.*, p. 797.

⁵³ *Ibid.*, p. 820.

British Governments not to cooperate with the Federated Reserve Bank. Mr. Nisiyama expressed the view that it would be advisable for American and British banks to accept the Federated Reserve Bank notes; that by so doing they could resume their normal operations and American and British trade would also be carried on in a normal way; and that there was no desire to discriminate against American and British trade or business. I commented that the position of this Government with regard to the exchange and trade restrictions which had been set up in north China was set forth clearly in this Government's notes to the Japanese Government of October 6 and December 31; that developments since the sending of those notes had not caused us to modify the views expressed therein but on the contrary had strengthened our belief in the soundness of the position which had been taken by this Government. Mr. Nisiyama again expressed the view that it was advisable that American and British banks cooperate with the Federated Reserve Bank and its currency, and he stated that there was no Chinese Government currency in the area. I commented that in as much as north China was a part of China I saw no reason why Chinese Government currency should not circulate and be available in that area. Mr. Nisiyama continued his argumentation, and I finally terminated this phase of the discussion by saying that in as much as this was Mr. Nisiyama's first call I did not wish to enter into a detailed discussion with him but would only refer him to what I had previously said.

Mr. Ballantine then joined us, and the remainder of the conversation was of a conventional character.

M[AXWELL] M. H[AMILTON]

893.516/602: Telegram

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

PARIS, May 12, 1939—4 p. m.

[Received May 12—12:11 p. m.]

932. Laurent, Vice Governor of the Banque de l'Indo-Chine, has just informed me that the Japanese Government has asked British, French and American banks in Shanghai to deal with the new Chinese banks which they have created (Hua-Hsien Bank). The British banks have refused flatly to comply with this request; the French banks were instructed yesterday also to refuse; and Paris is informed that the American banks have replied that they will consider the question.

BULLITT

893.516/603 : Telegram

*The Ambassador in the United Kingdom (Kennedy) to the Secretary of State*LONDON, May 12, 1939—5 p. m.
[Received May 12—2:10 p. m.]

671. At the instance of the British Treasury, a member of the Embassy staff had a conversation with Hall-Patch⁵⁴ who is temporarily doing Leith-Ross'⁵⁵ work. Hall-Patch stated that Craigie had been requested to attempt to obtain assurances from the Japanese Foreign Office and the Bank of Japan regarding the future operations and conduct of the new Reserve Bank of Shanghai but the British Treasury does not expect to obtain satisfaction. Hall-Patch received the impression from Arakawa⁵⁶ that the Japanese army intended to use the new reserve bank as an instrument for monopolizing the Yangtze trade when it was opened.

Hall-Patch indicated that he was concerned about this development since it seemed clear that the Japanese would not repeat the mistakes they had made with the Reserve Bank of North China. The first step in preventing the Japanese from gaining a monopoly of the export bills was to keep the reserve bank out of the clearing and this the Hong Kong-Shanghai Banking Corporation was in a position to do. Hall-Patch expressed confidence that all the British banks could be brought into line to present a united front and implied that the larger British company [*companies?*] would be approached as well. He went on to say that when Craigie had failed to obtain satisfaction from Tokyo, the British Government would probably approach the other interested governments with a view to obtaining a united front on the part of all foreign banks and, if possible, the larger foreign companies as well.

KENNEDY

693.001/550 : Telegram

*The Ambassador in Japan (Grew) to the Secretary of State*Tokyo, May 17, 1939—5 p. m.
[Received May 18—7:40 a. m.]

231. Our 177, April 14, 8 p. m.,⁵⁷ trade restrictions in North China.
1. My British colleague has furnished me with the following paraphrase of telegraphic instructions from his Foreign Office dated May

⁵⁴ E. L. Hall-Patch, recently Financial Adviser to the British Embassy in China.⁵⁵ Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government.⁵⁶ Shoji Arakawa, Japanese Financial Commissioner in the United Kingdom.⁵⁷ Not printed; it reported the Japanese reply of April 13 to the American note of March 11. For texts, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 831 and 833.

13, regarding a reply to the Japanese note to him of April 13. Craigie concurs in these instructions.

"I consider Japanese arguments call for a vigorous reply. This might be on the following lines.

(2) For reasons given in your note of March 10 and the United States note of March 11 the relevant portions of which can be suitably paraphrased His Majesty's Government still regard trade restrictions in North China as constituting a serious discrimination against Great Britain in favor of Japan.

(3) They cannot accept the Japanese contention that question of treaties do not arise in this connection. The discrimination clearly contravenes provisions of Nine Power Treaty to which both China and Japan are parties.

(4) Whatever rights legitimately Chinese Government may have in the matter of trade control they are bound by this agreement. In so far as Peiping provisional regime purports to be a legitimate government it is bound to observe obligations binding on the Chinese state. Actually this regime is not recognized either by Great Britain or Japan and has no sovereign right to ignore treaties which, even if it were legitimate and recognized, it would be bound to observe as part of international obligations of China.

(5) Moreover, His Majesty's Government are unable to accept the contention implied in the Japanese note that Peiping Provisional Government is acting independently in this matter and that Japanese attitude is limited to cooperation. This is contrary to obvious fact that His Majesty's Government must continue to regard Provisional Government as a regime sponsored and controlled by Japanese authorities and they must hold Japanese Government responsible for its actions.

(6) Please consult your United States colleague and your French colleague with a view to replying on these lines to the Japanese note and let me have your observations".

2. The Department will note, from comparison of the Japanese replies to our note (see my despatch 3849, April 27⁵⁸) and to the British note (see my despatch No. 3872, May 8⁵⁸), respectively, that in point of both tone and substance the former is more moderate than the latter. Further, the instructions to my British colleagues contemplate refutation of certain Japanese contentions which are set forth in their [reply] to the British note but not in their reply to our note. Accordingly, I cannot recommend that I be authorized to make rejoinder along the lines of the instructions which my British colleague has received.

3. Unless the Department perceives objection, we propose to address a further note to the Foreign Office pointing out that there has been little or no consideration given in [to?] the conditions complained of and requesting that these conditions which cannot be reconciled even with the objectives set out in the Japanese reply to our note be removed or corrected.

GREW

⁵⁸ Despatch not printed.

893.516/600: Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, May 20, 1939—2 p. m.

92. Your 323, May 10, 5 p. m. Please inform the Chinese Minister for Foreign Affairs orally and informally and in confidence that the Department has communicated to representatives of the American banks in Shanghai its views that, while we recognize that American banks have responsibilities of their own and have to protect their own interests, the Department would welcome the maintenance by foreign banks in China of a united front in refraining from action which might assist toward establishing the new bank and launching the new currency.

Repeated to Shanghai and Peiping. Shanghai please mail to Tokyo.

HULL

693.001/550: Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, May 20, 1939—3 p. m.

137. Reference your 231, May 17, 5 p. m., in regard to trade restrictions in north China. It is the view of the Department that further representations at this time would not be likely to serve a useful purpose, and you may so inform the British Ambassador. Nevertheless, if the British Ambassador should decide to make a further approach and should he feel that an approach on your part would be helpful, the Department has no objection to your addressing another note to the Japanese Foreign Office along the lines indicated in the last paragraph of your telegram under reference. The Department appreciates your reasons for not recommending a rejoinder along the lines of the instructions which your British colleague has received.

HULL

893.516/601: Telegram

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

WASHINGTON, May 20, 1939—3 p. m.

174. Reference the Department's 143, May 4, 1 p. m., your 347, May 4, 7 p. m., and Chungking's 320, May 10, 2 p. m.⁵⁹ and 323, May 10, 5 p. m.

1. An officer of the Department on May 5 informed a representative of the National City Bank (and indirectly the Chase Bank) that the

⁵⁹ Telegram No. 320 not printed.

Department is interested in the position which American banks with branches in Shanghai propose to take in regard to the Huahsing Bank and its note issue; that it is our impression that the establishment of the new bank is an initial step in a Japanese program for the establishment in central China of financial and economic control similar to that which the Japanese have attempted to set up in north China; that it does not seem to the Department that advantage would accrue to American or other foreign banks through assisting the new bank in the launching of its note issue; and that, while the Department recognizes that American banks have responsibilities of their own and have to protect their own interests, the Department would welcome the maintenance by foreign banks in China of a united front against the new Japanese financial measures and hopes that American banks in central China will see their way clear to refraining from action which might assist the Japanese in establishing the new bank and launching the new currency.

2. In reply, the representative of the National City Bank referred to certain past difficulties and misunderstandings between the Bank and the Chinese Government and said that the misunderstandings had been ironed out and the Bank desired that its activities be satisfactory to the Chinese Government; he made no conclusive statement regarding the position which the Bank will take in reference to the new Japanese financial measures, but he intimated that the Bank is leaving decision in regard to that matter, for the time being at least, to the Bank's officials in China. Department is not informed regarding decision or current practices of the said officials.

We are in doubt whether National City and Chase have communicated to their branches in China the views expressed on behalf of the Department.

3. The American Ambassador in Paris has reported that French banks in central China have been instructed to refuse to deal with the new bank.

4. The Department desires that you inform the American banks in Shanghai orally and informally of the approach made by the Department to their home offices in New York, described in numbered paragraph 1 above.

5. Please acquaint Ambassador Johnson fully with this matter upon his arrival in Shanghai. Should you and he decide that a further approach by the Ambassador to the officials of the American banks in Shanghai would be helpful and advisable, the Department authorizes the Ambassador to make such an approach.

Repeated to Chungking and Peiping. Shanghai please mail to Tokyo.

HULL

893.516/608: Telegram

The Second Secretary of Embassy in China (Clubb) to the Secretary of State

NANKING, May 27, 1939—11 a. m.

[Received May 27—6 a. m.]

35. Nanking's 31, May 9, 11 a. m.⁶⁰ Local press reports establishment yesterday of Nanking branch of Huahsing Commercial Bank "for the stabilization of the currency, opening up of remittances, expansion of foreign trade, and realization of economic cooperation". Other branches are scheduled to be opened in mid-June at Soochow, Hangchow, Wusih, Chinkiang, Wuhu.

Repeated to Peiping, Shanghai.

CLUBB

893.516/599: Telegram

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

WASHINGTON, May 27, 1939—2 p. m.

189. Your 367, May 9, 6 p. m. Inasmuch as customs revenues in north China have been since March 1938 payable in so-called Federal Reserve Bank notes and those notes have usually been at a discount in relation to Chinese national currency, the Department desires that you endeavor to verify the information given you by the Customs to the effect that the Customs revenues held in Tientsin and other north China ports are in the form of deposits payable in Chinese national currency.

HULL

893.516/612: Telegram

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

SHANGHAI, May 29, 1939—3 p. m.

[Received May 29—1:35 p. m.]

441. Reference Department's No. 189, May 27, 2 p. m., and my 367 of May 9, 6 p. m. The Financial Secretary of Inspectorate General of Customs today confirmed that Federal Reserve Bank notes are being and have continuously been accepted at par by Chinese Maritime Customs in the North China area and deposited, along with Chinese legal tender notes received, in Customs accounts with the Yokohama Specie Bank as "Chinese yuan" and the monthly report received from the Yokohama Specie Bank in Tientsin by the Inspectorate General

⁶⁰ Not printed.

of Customs reads that so many "Chinese yuan" are on deposit in the Customs account. He states confidentially that this term may be considered as covering Federal Reserve Bank notes as well as Chinese legal tender notes and that repayment may presumably be made in either or both except that the portion of these deposits included in the "foreign loan quotas" must be paid in Chinese legal tender notes if the Anglo-Japanese customs agreement is implemented.

Repeated to Chungking and Peiping, code text by air mail to Tokyo.
GAUSS

611.939/138 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, June 2, 1939—4 p. m.
[Received June 2—1 p. m.]

257. 1. According to the *Peking and Tientsin Times* of May 31, the restriction on the transportation of certain categories of goods into the British and French Concessions is extended to commodities other than cotton yarn and cloth. The list of articles affected by the ban is said to include artificial silk, furs and skins, hides, hemp and woolen yarns.

2. A Swiss firm in Peiping states that it has been doing a substantial business in dog skins for shipment to the United States and that its Tientsin office has recommended that no further shipments be made until the situation in Tientsin is clarified.

3. Tientsin's despatch No. 804 of May 29⁶¹ states that carpets, rugs, and woolen yarn and dyed raw wool belonging to an American rug firm were prevented entry into the British Concession. Although the carpet and rugs were subsequently allowed to enter the yarn and raw wool have not as yet been permitted to enter. The Japanese military are stated to be responsible for these measures.

4. Preventing raw materials and in some cases finished products, from entering the Concessions may indicate that the Japanese are initiating an economic isolation of the Concessions. If these restrictive measures continue, business will have to move out of the Concessions in a great many cases and there will be serious interference with the trade in which Americans are interested.

Repeated to Chungking. By air mail to Tokyo. By mail to Tientsin and Shanghai.

LOCKHART

⁶¹ Not printed.

893.5151/604a : Telegram

The Secretary of State to the Consul General at Tientsin (Caldwell)

WASHINGTON, June 2, 1939—5 p. m.

29. The Department would appreciate an early report by naval radio in regard to the following:

(1) The extent to which American and other foreign banks have maintained a common front in refusing to purchase from exporters and sell to the so-called Federal Reserve Bank at the official rate export bills drawn on commodities subject to the exchange and trade control measures which went into effect in north China on March 11.

(2) Whether the position of American and other foreign banks in this matter has had or in the future may be expected to have an important or controlling influence upon the position adopted by important American and other foreign trading interests or whether those interests have conducted or may be expected in the future to conduct their business through Japanese banks.

(3) Is continued maintenance of a position of non-cooperation by foreign banks likely, in the opinion of foreign business and banking interests in Tientsin, to cause a modification of the trade and exchange control measures and an alteration in the value of the new currency.

Please endeavor to elicit the foregoing information without disclosing the fact that it is desired by the Department.

Repeated to Peiping and Chungking.

HULL

893.516/616 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, June 2, 1939—7 p. m.

[Received June 2—2:23 p. m.]

769. Embassy's 760, June 1, 7 [5] p. m.⁶² British Treasury states that telegrams have been sent today to Tokyo and Shanghai indicating skepticism regarding the Japanese assurances and expressing the opinion that in time exchange control may be instituted and Central China subjected to tactics similar to those employed in North China. The British Ambassadors are instructed to confer with their American, French, Dutch and Belgian colleagues and the British banks in Shanghai are to be asked to keep in close touch with their non-*Axis* colleagues of the Foreign Bankers Association with a view to ensuring non-cooperation.

Although the British Treasury perceives little difference between non-cooperation and active opposition, Craigie apparently does. However, the British Treasury is concerned that "non-cooperative"

⁶² Not printed.

united front be preserved and ready against the day when the Japanese show their hand. They hope that in the meantime none of the non-Axis foreign banks will be tempted to do special deals with the new Japanese bank.

KENNEDY

600.939/329 : Telegram

*The Chargé in Japan (Dooman) to the Secretary of State*⁶³

TOKYO, June 4, 1939—10 a. m.

[Received June 5—6: 47 p. m.]

259. Department's 83, April 5, 5 p. m. via Peiping and our 170, April 8, 3 p. m.⁶⁴ in regard to restrictions in North China on transmission of furs by parcel post. The following is our translation of a *note verbale* received from the Foreign Office today:

"The Imperial Ministry of Foreign Affairs presents its compliments to the American Embassy at Tokyo and has the honor to refer to the latter's communication of April 8, 1939, in regard to the problem of refusal to accept parcel post packages of furs for transmission in North China.

The Japanese authorities on the spot have been exerting themselves for some time now in an effort to settle this question. According to later reports, the parcel post packages of furs addressed to American dealers in Tientsin which were the matter of complaint for a while have been delivered to the consignees as a result of new rules issued by the postal authorities in North China. While cases similar to this are reported to have occurred recently, the authorities on the spot are at the present time making every effort to effect a settlement. The Ministry of Foreign Affairs likewise is sparing no pains in regard to this problem. However, the Ministry is of the opinion that the full cooperation of the American fur dealers in Tientsin with the Japanese authorities on the spot would contribute greatly to a settlement of the matter. Tokyo, June 2, 1939."

Sent to Chungking, Shanghai, Tientsin.

[DOOMAN]

600.939/319 : Telegram

The Secretary of State to the Counselor of Embassy in China (Lockhart), at Peiping

WASHINGTON, June 6, 1939—6 p. m.

110. Your 243, May 29, noon,⁶⁵ and Tokyo's 259, June 4, 10 a. m. The Department would like to have as soon as possible your comment on the Japanese Government's statements as set forth in Tokyo's tele-

⁶³ Signed and forwarded by the Counselor of Embassy in China, at Peiping.

⁶⁴ Latter not printed.

⁶⁵ Not printed.

gram under reference, and information as to whether the interferences with the fur trade reported in your telegram under reference have been or may be expected in the near future to be removed.

For your information, the Department is considering making representations to the Japanese Government covering the almost continuous interference by agencies and instruments of the Japanese Government with the fur and skin trade in north China since the occupation of that area by Japanese military forces.

Repeated to Chungking and Tientsin.

HULL

893.5151/605 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, June 7, 1939—2 p. m.

[Received June 7—9:45 a. m.]

82. Department's 29, June 2, 5 p. m., repeated to this office by Peiping and Shanghai.

1. According to the best information obtainable, the only banks which have cooperated with the Federal Reserve Bank in handling at the official rate export bills for commodities subject to exchange and trade control measures are the Japanese banks. The German bank has denied that it is cooperating with the Federal Reserve Bank, but certain American and British bankers believe that the German bank here and in Peiping is working with the Yokohama Specie Bank on the "link system" as reported in my No. 806 of May 31 to the Embassy.⁸⁶

2. The position of American and other foreign banks has compelled all American and other foreign trading interests handling controlled exports to sell export bills to the Yokohama Specie Bank or to Japanese and German firms; or to sell telegraphic transfers exchange on New York or London (instead of export bills) to the Yokohama Specie Bank which immediately supplies in return an equivalent amount of foreign exchange for "preferred imports". The Yokohama Specie Bank is reported to be exerting pressure on exporters for the sale of their export bills to Japanese firms rather than to the bank itself. The consensus of opinion is that the attitude of the foreign banks has perhaps curtailed business somewhat; that it has forced importers in some cases to finance "link transactions"; and that it has prevented exporters from obtaining freely from their own banks so-called "export packing credits" which are not obtainable from the Yokohama Specie Bank, Japanese or German firms, but which in some cases have been extended to regular clients by British

⁸⁶ Not printed.

and American banks regardless of their not having handled the exchange transactions. American and other foreign trading interests must continue to work through the Japanese banks or Japanese or German firms if they wish to do business, unless the American and other foreign banks alter their position.

3. It is not considered likely that continued non-cooperation of foreign banks will effect any important alteration of trade or exchange control measures or the value of the Federal Reserve Bank currency, although some (but not all) may consider that adoption of a policy of cooperation would probably cause some appreciation in the value of this currency.

Repeated to Peiping, Chungking, Shanghai.

CALDWELL

600.939/330 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, June 8, 1939—noon.

[Received June 9—7 a. m.]

266. Department's 110, June 6, 6 p. m.

1. It would appear that there has been practically no relaxation of restrictions upon the fur trade in North China. In one instance where a form of interference was abolished, after representations, another was immediately instituted.

2. The most notorious instance of interference is that reported in the second paragraph of the Embassy's 243, May 29, noon.⁶⁷ According to a letter from the Tientsin Fur Seal Exporters and Importers Association, the furs arrived in Tientsin April 15 and were returned to Tsinanfu on May 27 as a result of the failure of negotiations with the Japanese military authorities at Tsinanfu, who were and apparently still are endeavoring to force the owners to provide them with foreign exchange equivalent to the value of the furs.

3. The chairman of the association states that he was informed by an officer of the Japanese Consulate General at Tientsin that in future the association will be required by the Japanese military authorities at Tsinanfu to send a representative there to negotiate with them for the possible transmission of furs from Shantung to Tientsin for export. The Chairman believes that the military authorities will endeavor to force the association to provide foreign exchange equivalents of all shipments.

4. Restrictions on the movements of furs into the British and French Concessions, reported in the Embassy's 257, June 2, 4 p. m., is a recent

⁶⁷ Not printed.

instance of Japanese interference with the activities of the fur seal trade. On the other hand certain shipments of furs have reached Tientsin without trouble or interference.

The chairman of the association comments that the owners of such shipments undoubtedly made some "arrangement" with the authorities or that shipments were made through Japanese agencies.

5. In the light of information received from Tientsin the Embassy believes that the Japanese consular authorities are endeavoring to some extent to effect the removal of the burdensome restrictions but that they are unable to bring this about because of the arbitrary and uncontrollable actions of the Japanese military especially in Shantung. As far as can be ascertained restrictions of one sort or another still exist and it is not believed that they will be removed in the near future unless the Japanese military authorities are compelled by a superior authority to abandon their present position.

Repeated to Chungking. Code text by air mail to Tokyo and by mail to Tientsin.

LOCKHART

600.939/319 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, June 10, 1939—2 p. m.

160. Reference Peiping's 243, May 29, noon.⁶⁸ Please approach the Japanese Foreign Office and present a formal signed note reading substantially as follows:

"The Government of the United States has on a previous occasion pointed out clearly to the Japanese Government the American interest in the north China trade in furs and skins. That interest, as the Japanese Government is aware, is three-fold: (1) American firms are prominent in the business of purchasing and exporting furs and skins from north China; (2) American consumers take the bulk of Chinese exports of domestic animal furs and skins and are to an important extent dependent upon China as a source of supply; and (3) the curtailment of exports from north China to the United States or to other free currency areas necessarily reduces the foreign exchange available for the purchase of American products.

Notwithstanding the American interest involved and the repeated assurances of the Japanese Government that the Open Door or equality of opportunity in China would be maintained, the fur trade in north China has been subjected almost continuously by agencies and instruments of the Japanese Government to unwarranted interference since the occupation of the area by Japanese military forces. Shortly after the Japanese occupation there were reports that monopoly rights for the purchase of wool and furs in Inner Mongolia had been granted by the Japanese authorities in that area to certain Japanese merchants.

⁶⁸ Not printed.

There were also reports to the effect that the Japanese-controlled authorities in Inner Mongolia had prohibited the exportation of furs and skins except with permission from the local authorities. It is now reported that an organization known as the Meng-chiang Trading Company is allowed a virtual monopoly of trade in Inner Mongolia, including the trade in furs and skins; and that that organization is allowed to transport to Tientsin lots of furs and skins which it endeavors to sell for foreign currency. Regardless of what may be the facts in regard to the reported embargo and monopolies, fur exporters in Tientsin state that they have been able to obtain only small lots bought in Tientsin by Chinese dealers at irregular intervals.

On June 28, 1938, the Peiping régime imposed an embargo, effective immediately, upon domestic animal hides and skins. Tientsin exporters were at that time in possession for immediate exportation to American purchasers of raw skins and plates valued at between four and five hundred thousand dollars United States currency, covered by letters of credit, while additional unfilled contracts at that time were estimated at 2 million dollars. Following representations by the American Government on July 4,⁶⁹ July 6,⁷⁰ and July 16,⁷¹ the embargo was modified on July 29 so as to allow exportation of the types of furs and skins of principal interest to American exporters and consumers. Nevertheless, members of the Tientsin Fur Exporters Association estimate that the embargo caused them a cash loss of eighty thousand dollars United States currency.

In recent months there has been a recrudescence of unwarranted interference with American trade in furs and skins.

It is now reported that certain Japanese firms are combined in an endeavor to form a monopoly in the Province of Shantung as a means of forcing fur exporters to deliver to them their export letters of credit, thereby turning into Japanese hands the foreign currencies obtained from the sale of furs and skins abroad. Japanese military authorities are reported to have arbitrarily detained several lots of furs at various times in Tsinan. It is reported that in one instance a lot of 139 bales was released only after the payment of a commission of over ten thousand dollars. At the present time it is reported that 15 bales of furs belonging to 3 American firms are being unwarrantedly detained in Tientsin, reputedly at the instance of the military authorities in Shantung.

During the month of March it was reported to the American Government that the post offices in the interior of north China were refusing to accept parcel post packages of furs and skins and that parcels arriving at Tientsin were being returned to the senders. Following representations by the American Government on April 8, 1939, it was reported that the postal authorities in north China had received instructions permitting the use of parcel post facilities for the transmission and delivery of the types of furs of interest to American exporters and consumers. It is now reported, however, that the Tientsin Fur Exporters and Importers Association has been

⁶⁹ See memorandum by the Ambassador in Japan, July 4, 1938, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 605.

⁷⁰ See telegram No. 444, July 6, 1938, 7 p. m., from the Ambassador in Japan, *Foreign Relations*, 1938, vol. IV, p. 24.

⁷¹ See telegram No. 468, July 16, 1938, 3 p. m., from the Ambassador in Japan, *ibid.*, p. 27.

informed by the Director of Posts in Hopei by a letter of date May 22 that, in as much as the formalities required by the authorities are at variance with postal procedure, furs and skins may not be shipped by parcel post for the present. The letter is reported to explain that the Japanese military authorities in Shantung do not allow the transmission of furs and skins through that province unless a permit is obtained directly from the military authorities. Notwithstanding the assurances of the Japanese Government in its *note verbale* of June 2, 1939, that the Japanese authorities in north China are endeavoring to effect a settlement of problems relating to the fur and skin trade, there has been practically no relaxation of the restrictions of which the American Government complains.

It appears that the principal interference with the fur and skin trade in north China has been caused either directly or indirectly by the Japanese military authorities, and it has been indicated from time to time by representatives of the Japanese Government that the interference with the trade in furs and skins has been warranted by military necessity. In the opinion of the American Government the argument of military necessity cannot repeat nor be applied in regard to this matter. There appears to be no reason why the Japanese military authorities may not enter the market and purchase the furs and skins which they require in open competition. The American Government has been forced to the conclusion that in interfering with the exportation of furs and skins from north China the Japanese military authorities are endeavoring to stifle competition with the object of driving prices down, thus enabling Japanese authorities to purchase their requirements at lower prices than would otherwise be the case, and to obtain foreign exchange from direct exportation by their own agencies.

The American Government protests emphatically against this continued unwarranted interference by Japanese instruments and agencies with legitimate commerce of American citizens in China and requests that the Japanese Government cause this interference to cease."

Repeated to Peiping, Chungking and Tientsin.

HULL

693.001/553 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, June 12, 1939—noon.

[Received June 12—6:40 a. m.]

268. Department's 137, May 20, 3 p. m., via Shanghai, North China trade restrictions.

The British Embassy presented a note to the Foreign Office on June 9. We presented a note along the lines indicated today.⁷²

DOOMAN

⁷² *Foreign Relations, Japan, 1931-1941*, vol. I, p. 848.

893.516/630

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

No. 236

CHUNGKING, June 12, 1939.

[Received June 29.]

SIR: I have the honor to enclose a copy, accompanied by a translation, of a note from the Ministry of Foreign Affairs dated June 7, 1939,⁷³ asserting that it is part of the Japanese plan in establishing the Hua Hsing Bank in Shanghai and issuing notes of that Bank to create a Japanese economic monopoly and expel the lawful trade of friendly powers; the Ministry requests, therefore, that the American Embassy take steps to oppose this project and direct American citizens to refuse cooperation with the Japanese in its execution.

The Embassy in acknowledging the receipt of this communication is stating that its contents have been transmitted to the American Government.

Respectfully yours,

For the Ambassador:
WILLYS R. PECK
Counselor of Embassy

611.939/140: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, June 14, 1939—5 p. m.

[Received 7: 55 p. m.]

281. Peiping's 257, June 2, 4 p. m.

1. A local American manufacturer of carpets who received permit to export a shipment of carpets to Manila from Foreign Exchange Bureau was informed today by shipping agent that he could not accept any shipments from Peiping to Tientsin as carpets could not enter French Concession where customhouse is situated.

2. Tientsin's 90, June 13, 10 a. m.,⁷³ reports arrangements for the establishment of customhouse outside the Concessions in Tientsin. Informants state this morning that they have received confirmatory reports from Tientsin. Until this is done, export shipments from Peiping by American interests or for the United States appear to be impossible under present conditions.

3. Manager of the Standard Vacuum Oil Company, one of informants, states that his company is making arrangements for agents to deposit collections either in Yokohama Specie Bank in Tientsin or in National City Bank in Peiping if restrictions on Concessions make deposit at the National City Bank at Tientsin too difficult.

⁷³ Not printed.

Repeated to Chungking. By air mail to Tokyo. By mail to Tientsin and Shanghai.

LOCKHART

893.516/654

*Memorandum of Conversation, by Mr. Joseph M. Jones of the
Division of Far Eastern Affairs*

[WASHINGTON,] June 21, 1939.

Participants: Mr. Pinsent, Financial Counselor of the British
Embassy
Mr. Adams ⁷⁵
Mr. Jones

Mr. Pinsent stated that he had on his own initiative called on Mr. Hamilton a few weeks ago to discuss the attitude which foreign banks should take toward Japanese sponsored financial measures in central China, but that he had now received an instruction from his Government to inform the Department that the British Government has decided to make no further representations to the Japanese Government in regard to their financial manipulations in China, but that it has decided to approach the Governments of Belgium, France, the Netherlands, and the United States, informing them that British banks have decided upon a policy of "passive obstruction" to the Japanese sponsored financial scheme in central China and expressing the hope that other foreign banks in China will cooperate in maintaining a similar attitude. Mr. Pinsent read the text of a communication handed by the Japanese Foreign Minister to Ambassador Craigie in Tokyo in regard to the organization and purposes of the new bank, which appeared to be similar to, if not identical with, the statement given to Consul General Gauss by the Japanese Consul General at Shanghai.

Mr. Pinsent was told that the Department had informed officials of American banks in China and their home offices in New York that in its opinion the establishment of the Huahsing bank and the issuance of a new currency in central China appear to be the initial steps in the creation of a general system of trade and exchange control in central China, and had expressed the hope that American banks would see their way clear to refraining from any action which might assist the new bank and its currency and to maintaining with other foreign banks a common front of resistance.

⁷⁵ Walter A. Adams, of the Division of Far Eastern Affairs.

611.939/145 : Telegram

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

WASHINGTON, July 5, 1939—6 p. m.

25. Your 10, January 17, 7 p. m.,⁷⁶ in regard to the inability of the American Silk Spinning Company to obtain supplies of Canton silk waste. This firm reports that there have been no shipments of Canton silk waste since the beginning of June because of the inability of the firm's suppliers (Reiss Bradley and Company, Spalinger and Company, and Siemssen and Company) to make deliveries from the interior to Hong Kong; that the firm has outstanding commitments with the above named suppliers for 2150 piculs; and that continued interruption of its supply of Canton silk waste will seriously curtail its operations.

Your political reports for March and April and Hong Kong's telegram 197, June 15, 9 a. m.,⁷⁷ indicate that the Japanese authorities are directly responsible for the situation and that it cannot be remedied without removal of Japanese restrictions. If upon investigation you feel satisfied that this is the case, please make appropriate representations to the Japanese authorities, emphasizing the dependence of American manufacturers upon a regular supply of Canton silk waste and requesting that Japanese restrictions be removed to the end that there may be an early resumption of shipments.

Unless you feel that it would be inopportune, the Department suggests that you utilize the occasion to express to the Japanese authorities concern over the continued closure of the Pearl River to commercial shipping in general and the desire that restrictions on trade be promptly removed.

Please report by radio results of your investigation, repeating to Hong Kong, Chungking and Peiping. Peiping please repeat to Tokyo.

Repeated to Hong Kong, Chungking and to Peiping for repetition to Tokyo.

HULL

600.939/347 : Telegram

*The Second Secretary of Embassy in China (Smyth) to the Secretary of State*PEIPING, July 7, 1939—5 p. m.
[Received July 8—6:30 p. m.]333. Peiping, 330, July 6, 4 p. m.⁷⁸

1. In the statement issued by the Provisional Government it is stated that the export control measure is believed to be the most ef-

⁷⁶ Not printed.⁷⁷ None printed.

fective one to eliminate the old National Government notes even from foreign trade transactions; that the present revised regulation only differs from the one now in operation (covering 12 articles) in that the scope of its application has been extended; and that "as far as possible due respect should be paid to the existing contracts made in good faith."

2. It is stated that the regulation envisaged the sale of exchange for "invisible trade" such as remittances to families abroad. It is explained that the creation of a fund whereby such non-commercial remittances may be made is made possible by the ruling that the Federal Reserve Bank will sell for commercial purposes only 90 per cent of the foreign exchange purchased. While the foregoing is the ostensible reason for withholding 10 per cent, it appears that the Federal Reserve Bank will be able to create a foreign exchange reserve corps fund at the expense of exporters and the exchange banks.

3. The notice of the superintendent of customs (issued at the same time) states, *inter alia*, that exporters to countries other than Japan and Manchukuo must sell their exchange to exchange banks in North China "at the rate above the basic rate of exchange of 1 shilling 2 pence on London in currencies other than those of Japan, Manchukuo, Mengchiang, and North China, for the whole amount of the merchandise valued at a fair price against Federal Reserve Bank notes." Regarding exports to Japan and Manchukuo, exporters should sell exchange at par for the whole amount of the merchandise valued at a fair price against Federal Reserve Bank notes.

4. The list of imports to which preferential allotment of exchange will be made includes 71 items not mentioned in the previous list.

5. So far there has been little reaction in foreign business circles here other than extreme pessimism as to the future of non-Japanese business in North China. Yesterday the market in Tientsin weakened slightly but today is slightly easier. The telegraphic transfer selling rate is $9\frac{7}{8}$ ths and the buying $10\frac{1}{8}$ th for national currency. Federal Reserve Bank currency is at only 4 per cent discount. One observer has suggested that the extension of exchange and export restrictions are imposed at this time because Japan is convinced that none of the powers will undertake economic reprisals.

Repeated to Chungking and Shanghai, by air mail to Tokyo, by mail to Tientsin, Tsingtau, Tsinanfu, Chefoo.

SMYTH

611.939/154 : Telegram

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

CANTON, July 12, 1939—3 p. m.
 [Received July 12—1 : 53 p. m.]

76. Reference Department's 25, July 5, 6 p. m. and [26,] July 11, 6 p. m.⁷⁹ This morning I called upon the Japanese Consul General and made representations both in regard to the matter of the silk waste and the closure of the Pearl River. A memorandum embodying these representations was left with my colleague.

The Consul General replied in substance that the Pearl River continues to be kept closed for military reasons (mentioning in that connection that the delta has not as yet been completely occupied), that the Japanese authorities have refused applications from Japanese for the export of particular goods (several American applicants have been refused permission to reexport cargo), and that he regretted that it was not possible to do anything in the case.

In the discussion which followed he indicated that the Japanese authorities exercise close control over local Japanese trade and that the trade is restricted. With regard to the reported export to India of raw silk he appeared to have no knowledge but stated that with a view to affording relief to farmers and others engaged in the industry the authorities had instructed a certain firm (Mitsui) to purchase silk and has permitted export to Japan.

A detailed report will be sent by air mail.⁸⁰

Repeated to Hong Kong, Chungking and Peiping for repetition to Tokyo.

MYERS

611.939/159

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the Counselor of the Japanese Embassy (Suma)

[WASHINGTON,] July 13, 1939.

Mr. Suma called at his request. Mr. Suma said that following our conversation of several days ago the Embassy here had sent a telegram of inquiry in regard to the inability of the American Silk Spinning Company to obtain supplies of Canton silk waste. Mr. Suma said that the Embassy had now received a reply to the effect that the Pearl River was closed for the moment; that this of course affected adversely the export from the Canton area of all commodities, includ-

⁷⁹ Latter not printed.

⁸⁰ Not printed.

ing silk waste; and that he understood that for the time being some silk waste was being exported by "their man".

I asked Mr. Suma whether the expression "their man" meant that Japanese were exporting silk waste whereas nationals of other countries could not. When he intimated that this was the case at present I said that this was out-and-out discrimination; that this Government had made repeated representations to the Japanese Government in regard to the discriminations in favor of Japanese and against American and other nationals which were being put into effect in various areas of China; that, in reference to his statement that the Pearl River was closed for the moment, I would comment that the river had been closed for months already and that during these months our reports indicated that Japanese shoppers and merchants had gone to Canton in numbers far exceeding the number there before the hostilities began. I said that we could perceive no basis whatsoever for continuance of these conditions.

M[AXWELL] M. H[AMILTON]

893.51/6951

Memorandum by Mr. Joseph M. Jones of the Division of Far Eastern Affairs

[WASHINGTON,] July 13, 1939.

RECENT FINANCIAL AND ECONOMIC DEVELOPMENTS IN CHINA AND
THEIR SIGNIFICANCE

North China

The new trade and exchange control measures which are to become effective July 17 in north China provide that the foreign exchange accruing from all export transactions must be sold to the Federated Reserve Bank at the official rate of 1s. 2d. (27½ cents), either directly or through exchange banks. (Since March 10 a similar control has been applied to 12 selected items.) The Federated Reserve Bank promises to sell to individuals or to banks import exchange up to 90 percent of the export exchange purchased (instead of 100 percent as has been the bank's promise since March 10—the change is probably made in order to allow the banks to acquire foreign exchange reserves). The Bank maintains a list of articles, however, for which preferential treatment is granted in the selling of import exchange and maintains discretion in the matter of selling import exchange. As a result of these measures, then, full import and export control is established in north China in support of an unbacked, fiat currency pegged to the yen at par.

It appears that American banks and merchants in north China will either be obliged to cooperate in the new measures or retire from the

field. Since March 10, American and other foreign banks have refused to cooperate with the Federated Reserve Bank and have refused to finance the export of commodities subject to official control, but they have had something to live on: the financing of uncontrolled commodities, financing exports of controlled commodities for which contracts were made prior to the imposition of control, et cetera. But now they must either cooperate or surrender their major business—the financing of foreign trade. Since March 10, American merchants in north China have been occupied in exporting uncontrolled commodities and in exporting controlled commodities on a link basis, financing being done by Japanese banks and trading companies. They may endeavor to continue this business, cooperating with the local control, but according to a telegram from the American Chamber of Commerce in Tientsin, American merchants feel that if they deal with Japanese banks and agencies they will be discriminated against in favor of Japanese competitors, a fear probably well-founded.

It appears from the foregoing that we have reached a point where the intangible obstruction of foreign banking and commercial interests to Japanese economic and financial schemes must decline and probably cease. This Government does not appear to be in a position to ask American banks to continue a policy of non-cooperation with the Japanese authorities in trade and financial matters when compliance would virtually mean their elimination from business. Even if the British-Japanese negotiations in regard to the Tientsin affair do not result in British capitulation on financial matters, the new trade and exchange control measures will probably overcome foreign obstruction of this nature. Although the removal of this obstruction will probably have few important economic effects, the effects of this development upon China's morale, upon the loyalty of the masses in north China, may be serious. This would seem to suggest the importance of devising some immediate measure, either of retaliation against Japan or of assistance to China, to offset the effects of the crumbling of foreign obstruction to Japanese financial schemes in north China. Incidentally, it may be noted that the extension of export and trade control in north China will probably cause a further drastic decline in north China's already severely reduced foreign trade.

Chinese Government Areas

In an endeavor to balance her foreign payments, stimulate exports, and conserve reserves of foreign exchange, the Chinese Government on July 2 announced the immediate imposition of sweeping import prohibitions and revised measures of import and export control. Commodities listed under 237 tariff items, mostly luxuries and un-

necessaries, were prohibited except under special permits issued by the Ministry of Finance. (According to the Ministry of Finance, imports of the banned items in 1938 were valued at United States \$68,000,000.) Provision was made that the Bank of China and the Bank of Communications should buy the export exchange accruing on all commodities (except tung oil, tea, bristles, and mineral ores—commodities tied up with loan and barter arrangements) at the official stabilization rate (29½ cents) plus the difference between the official rate and the market exchange rate (meaning virtually the open market rate). Purchases of exchange accruing from exportation of the four excepted commodities is to continue at the official stabilization rate. On the import side applications for exchange for imports are to be considered by an exchange examination committee in Chungking and exchange may be granted by the Bank of China and the Bank of Communications at rates to be announced from time to time by the two banks, the rates to be official stabilization rates plus the difference between these rates and the open market rates (virtually the open market rates).

The new measures practically recognize the open market rate; they accept it for practical purposes. The measures should go far toward stimulating exports from Chinese Government areas—the exchange accruing to the Chinese Government for its money needs—and toward cutting down imports of all but vital needs connected with national defense. These measures, together with the modification of exchange policy adopted recently (that of blocking bank deposits and offering less support to the Chinese currency in the open exchange market) appear to indicate that the Chinese Government is “digging in” for a long siege and is determined to conserve her resources. These steps might logically have been taken long ago, but it appears that the Chinese Government has been following a policy suggested by its foreign advisers. The new policy will undoubtedly deal a severe blow to foreign trade and investments, but it seems to be the logical policy for China to follow.

600.939/353 : Telegram

The Secretary of State to the Consul General at Tientsin (Caldwell)

WASHINGTON, July 14, 1939—5 p. m.

47. Your 150, July 11, 2 p. m.²¹ The Department would appreciate a prompt report by naval radio giving your estimate in regard to the probable effects which the extension of export and exchange control to cover all commodities may be expected to have upon American and

²¹ Not printed.

other foreign banks operating in north China. In arriving at your estimate you may consult the American banks concerned, but the Department desires that if possible you avoid conveying the impression that your inquiries are other than informal and on your own initiative.

Repeated to Chungking, Peiping, and Shanghai.

HULL

600.639/354 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, July 15, 1939—1 p. m.

[Received July 15—6:30 a. m.]

153. In response to inquiries made, as instructed in last paragraph of Department's 47, July 14, 5 p. m., American bank managers have stated that if their present policy is maintained they may expect to have no business of any importance here after about September, the gradual decrease being due to extensions granted by the Federal Reserve Bank to exporters of rugs and possibly a few other commodities.

The same view was expressed to me by a British banker a few days ago in the course of a casual conversation, during which he also observed that it is unfortunate that no banking expert is to participate in the Tokyo negotiations, and gave me the impression that the British banks are not disposed to alter their present policy of noncooperation with Federal Reserve Bank.

The manager of the principal French bank here yesterday during a chance conversation expressed the same view as the British banker just mentioned, and insisted that the banks must maintain their present stand on this question, stating that his bank made a large profit last year and can afford to endure even a long period of no profits for the sake of the principle involved and the future position of the bank. Strong exception to this attitude was taken by a Swiss merchant, who is an important exporter of straw braids to the United States, and who advocated a policy of cooperation with the Federal Reserve Bank, pointing out that at present he is unable to obtain the usual assistance from the bank with which he regularly does business and must go to the Yokohama Specie Bank, and that there are many firms not financially able to survive long under present conditions.

Further inquiries will be made and any information of value will be telegraphed promptly.

Repeated to Chungking, Peiping, Shanghai; airmail to Tokyo.

CALDWELL

898.515/1404

The Department of State to the British Embassy

AIDE-MÉMOIRE

Reference is made to the British Embassy's *aide-mémoire* of July 12, 1939,⁸² in regard to the problem of currency in north China.

The Government of the United States continues to be seriously concerned with the fundamental issues presented by the present situation in the Far East and its attitude toward those issues remains unchanged.

Having in mind the fact that the discussions which are shortly to take place at Tokyo between the British and Japanese authorities grew out of and relate to the question of administrative control of the British Concession at Tientsin, the Government of the United States does not feel that it is in position at this time to give an undertaking to instruct its representative at Tokyo to participate in the discussions in regard to the subject of currency matters, if and when that subject is raised. The question is, however, as indicated in the British Embassy's *aide-mémoire*, one of concern to the Government of the United States. This Government understands that the British Ambassador at Tokyo has informed the American Embassy there that he will keep the Embassy informed in regard to any developments which may arise on that subject. On the basis of such information this Government would expect to study the matter with a view to offering such suggestions as it might deem to be helpful.

Aside from the question of the proposed discussions in regard to the British Concession at Tientsin, the Government of the United States has received a telegraphic communication from the American Chamber of Commerce at Tientsin⁸² referring to the recently promulgated regulations of the provisional regime at Peiping to the effect that as from July 17 all export commodities in north China will be subject to control. The Chamber indicated that no export business could be done without compliance with these regulations. The Chamber stated that it is asking that American banks cooperate in the execution of the regulations to the extent of facilitating the linking by American firms of exports and imports. The Chamber is convinced that if this is not done American business must suffer curtailment if not cessation.

Reference is made in this connection to the British Embassy's *aide-mémoire* of March 8, 1939,⁸² and to the Department's *aide-mémoire* in reply of March 13, 1939, in regard to the maintenance by the various

⁸² Not printed.

foreign banks in north China, especially the American, British, and French banks, of a common front in reference to trade and exchange restrictions in that area. The Government of the United States would appreciate the receipt of an expression of the views of the British Government in regard to the effect which the imposition of the new export regulations, effective as from July 17, is likely to have upon British and other foreign banks in north China and in regard to the attitude which the British Government may feel it advisable for British banks to adopt in the light of this new development.

WASHINGTON, July 15, 1939.

893.515/1407

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] July 15, 1939.

The British Ambassador called this morning at my request. I handed to him the *aide-mémoire* dated July 15⁸³ which I told him was in the nature of a reply to the British Embassy's *aide-mémoire* of July 12⁸⁴ in regard to the currency problem in North China.

The Ambassador read the *aide-mémoire* very carefully and then said that he fully appreciated the position of this Government. He said that it was obvious to him that this Government, both for reasons of policy and public opinion in this country, as well as because of the very essence of the question involved, would naturally not be prepared to participate in negotiations held in Tokyo between Great Britain and Japan and which were the outgrowth of purely local incidents in Tientsin affecting the administration of the British concessions in that city.

I also gave the Ambassador to read that portion of the memorandum of the conversation held with the Japanese Ambassador by the Secretary of State on July 10 which runs from page 4 down to the middle of page 9.⁸⁵ The Ambassador read this memorandum very carefully and expressed his appreciation at my having permitted him to see it.

The Ambassador said that he had no information from Europe of any importance during the past three or four days.

S[UMNER] W[ELLES]

⁸³ *Supra.*

⁸⁴ Not printed.

⁸⁵ *Foreign Relations, Japan, 1931-1941, vol. I, p. 656; see first paragraph, p. 657, through first paragraph, p. 659.*

611.939/163

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] July 19, 1939.

During a call by Mr. Suma he referred to the inability of the American Silk Spinning Company of Providence, Rhode Island, to obtain supplies of silk waste from Canton, with regard to which I had previously spoken to Mr. Suma. Mr. Suma said that the Embassy had received a cable from the Japanese Foreign Office to the effect that the Japanese Government was giving special study to the situation at Canton and to the effects of that situation on American commerce. He said that according to the message which the Embassy had received from the Foreign Office the Japanese Government was looking into the whole matter with a view to expediting the opening of the Pearl River. I said that I hoped that this further consideration of the matter by the Japanese Government would show early and effective results from the point of view of removing the causes of complaint.

M[AXWELL] M. H[AMILTON]

393.115 Tung or Wood Oil/21: Telegram

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

WASHINGTON, July 24, 1939—7 p. m.

57. The Department has recently received from various American dealers in wood oil requests for further action with a view to obtaining the removal of existing restrictions on the movement from Hankow to Shanghai of the product named.

According to information received by Spencer Kellogg and Sons from their Hankow office there has been obtained by the German Government from the Japanese Government a permit to ship from Hankow 2,500 tons of ramie.

Please investigate and inform the Department whether shipments or arrangements for shipments from Hankow of other than Japanese cargo have been made, together with your recommendations of such action as in your opinion might be appropriate and practicable to the end that American-owned goods now in storage at Hankow be shipped to Shanghai.

Sent to Hankow. Repeated to Chungking, Peiping and Shanghai.

HULL

893.515/1449

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Embassy duly communicated to the Foreign Office the enquiry contained in the State Department's note of July 15th as to the views of His Majesty's Government in the United Kingdom regarding the effect which the imposition by the provisional regime in Peking, as from July 17th, of new export regulations was likely to have on British and other foreign banks in North China and as to the attitude which His Majesty's Government felt it advisable for British banks to adopt in the light of this new development.

His Majesty's Embassy has now been instructed to inform the State Department that in the view of His Majesty's Government the effect of the new export regulations in North China must be to bring the business of foreign banks to a standstill and to give the Japanese a power to stop foreign trade in so far as it competes with Japanese trade. The general attitude of His Majesty's Government is that, as at present advised, they see grave difficulty in finding any acceptable intermediate position between

- (a) complete surrender to the view that they must acquiesce in the elimination of British trade and interests in China and must assist Japanese in their anti-Chinese action, and
- (b) the refusal to contemplate any concessions of principle.

To give the Federal Reserve Bank currency legal tender in the British concession would, His Majesty's Government feel, be held to be tantamount to recognition of the puppet government and inconsistent with His Majesty's Government's relations towards the legal government in China. His Majesty's Government are informed that the British banks feel that they cannot reasonably be asked as a business proposition to hand over export bills to the Yokohama Bank at an artificial rate in anticipation of being given import exchange at the same rate since by so doing they would in effect be buying Federal Reserve Bank currency at a price far above its value without any security. The banks further point out that if the exchange regulations were relaxed so as to fall into line with those prevailing in Manchuria British trade and banks in North China would suffer the same fate as British trade and banks in Manchuria. His Majesty's Government are also informed that the British Community in Tientsin have expressed the view that to give way on the questions of currency and silver reserves would jeopardize the currency, undermine Chinese resistance and give to the Japanese an even greater stranglehold on trade in North China than they now possess.

His Majesty's Government feel that it is of the greatest importance that the American banks should adopt a common policy with the

British and French banks and trust that the United States Government will be prepared to take whatever steps they can to ensure that such a common policy is maintained, more especially since, in the view of His Majesty's Government, any other course will have very serious effects not only on the Chinese power of maintaining the war, but ultimately on all foreign trade and banking interests.

His Majesty's Ambassador in Tokyo will keep the United States Chargé d'Affaires there fully informed in regard to any developments which may arise in regard to currency during his discussions with the Japanese Government, and due note has been taken of the readiness of the United States Government to offer such suggestions as it may deem to be helpful. In this connexion His Majesty's Government trust that the United States Government will agree that it is very desirable that it should be made clear to the Japanese authorities, in whatever way the United States Government deem most appropriate, that the question of currency is, as stated in the State Department's note under reference, of concern to the United States just as it is to the United Kingdom and France.

In regard to the related question of the silver reserves the view of the French Government, with which His Majesty's Government agree, is that neither the banks nor the authorities of the respective Concessions at Tientsin can dispose of these deposits without the consent of the depositors and that the only satisfactory solution is to place the silver under seal, a solution which has already been discussed with the Chinese authorities very secretly, and to which they are prepared to agree. While His Majesty's Government and the French Government are both directly concerned in this question, His Majesty's Government presume that it is also of concern to the United States Government in view of the political and economic repercussions which the disposal of the silver must necessarily have. They would therefore be grateful to receive any observations which the United States Government may feel disposed to offer in this connexion.

WASHINGTON, July 26, 1939.

393.115 Tung or Wood Oil/22: Telegram

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

HANKOW, July 26, 1939—9 p. m.

[Received July 27—9:40 a. m.]

174. Department's 57, July 24, 7 p. m. There are stored at Hankow awaiting shipment 3601 long tons of American owned wood oil, the property of three American firms, the Werner G. Smith Company of Cleveland, Spencer Kellogg and Sons of Buffalo and O. E. Vongehr,

a China Trade Act firm, all having offices in Hankow. This wood oil is valued at more than dollars 1,734,000 United States currency. The bulk of it has been here since 1937. The Consulate General on July 19 made separate formal representations to the Japanese Consulate General requesting on behalf of the three American firms facilities for shipment of their wood oil and pointing out the considerable financial losses already suffered from its enforced detention at Hankow. A similar request made by the Consulate General at Shanghai in May for shipment of part of this wood oil (340 tons owned by O. E. Vongehr) was refused by the Japanese authorities in June on the ground that "commercial navigation on the Yangtze is still prohibited on account of military operations". I am not optimistic about the results of representations made here.

2. The local representatives of the three American firms agree that the best means of getting their wood oil to Shanghai is for them to charter the necessary floating equipment either a tanker or lighters at Shanghai and for this equipment to be escorted from Shanghai to Hankow and back to Shanghai after the wood oil has been placed aboard by the next American vessel to make the trip. It is understood that an American gunboat probably will be leaving Shanghai for Hankow some time next month.

3. The Japanese are exporting and importing by the Yangtze in considerable quantities. Japanese products can be bought in scores of Japanese shops in Hankow. Chinese produce usually confiscated or acquired at forced low rates from Chinese owners is being shipped to Japan. The shipment of this American wood oil from Hankow will be opposed by the Japanese who wish to force the American owners to sell to them at prices far below the market.

4. If the American naval authorities are agreeable I believe that the measures described in the second paragraph of this telegram are practicable and I hope that the Department will feel that it can urge them on the Japanese authorities at Washington and Tokyo.

5. The loading of 2500 tons of China grass (ramie) destined for Germany is being effected today. The bales are marked Hamburg and will be reshipped to that port from Kobe. The cargo being loaded here belongs to Arnhold and Company, the Nivea Company, and Bunge and Company, British firms, and Schnabel, Gaumer and Company and Carlowitz and Company (German firms, although ramie belonging to other companies is included in the total amount). Rohde and Company are handling the shipment at this end. It is understood that the German authorities in their negotiations for the export of this cargo maintained that it is required by Germany for military purposes.

Repeated to Chungking, Peiping, Shanghai. Shanghai please repeat to Tokyo by air mail.

SPIKER

393.115 Tung or Wood Oil/13: Telegram

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

HANKOW, July 29, 1939—3 p. m.
[Received July 29—10:35 a. m.]

177. My July 26, 9 p. m. Japanese Consul General states that Japanese authorities concerned are now discussing possible means for shipment from Hankow of wood oil belonging to the three interested American companies.

Repeated to Chungking, Peiping, Shanghai. Shanghai repeat to Tokyo by airmail.

SPIKER

393.115 Tung or Wood Oil/23: Telegram

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

WASHINGTON, July 29, 1939—3 p. m.

270. Hankow's 174, July 26, 9 p. m., wood oil at Hankow.

1. The Department has been requested by the National Paint, Varnish and Lacquer Association on behalf of Werner G. Smith Company, Spencer Kellogg and Sons, Inc., and S. L. Jones and Company to lend its assistance in obtaining permission for one vessel to proceed to Hankow or other points on the Yangtze to bring out wood oil belonging to these firms. It is desired that you consult representatives of these and other interested firms (the Department has also been approached in regard to wood oil held at Hankow by Bunge North American Grain Corporation and Pacific Vegetable Oil Corporation which claims to be the owner of oil shipped by O. E. Vongehr) and, if they indicate willingness to charter the floating equipment needed, that you approach the appropriate Japanese authorities with a view to arranging for the transport of the wood oil to Shanghai.

2. With regard to paragraph 2 of Hankow's telegram under reference, the Department perceives no need for providing American naval escort and believes that such action would not be desirable.

3. In your approach to the Japanese authorities you should outline the history and status of the wood oil in question and state that the Department is being pressed not only by the owners of the oil but also by members of the paint and varnish industry. You should also point out that the oil is perishable and that the continued prevention of its export and the consequent spoilage of the oil can be of benefit to no one. You should if possible avoid a discussion of the general question of navigation on the Yangtze and should of course avoid any commitment which might prejudice either future similar requests or the position of this Government in regard to the general question of navigation on the Yangtze.

4. It is of course desired to avoid the appearance of discrimination between various American owners of goods held in Yangtze ports. It appears that wood oil, in view of its perishable nature and of the fact that the American owners are prepared to provide a vessel to transport their cargo, may be considered to be entitled to special consideration. However, depending upon the capacity of the floating equipment to be employed and the attitude of the Japanese authorities, it might be found practicable to arrange also for the transport of other American goods which are awaiting shipment to Shanghai.

5. If and when you have made a definite approach to the Japanese authorities, Tokyo is requested, upon the receipt from you of advice that you consider such action would be likely to be helpful, to take the matter up also with the Japanese Foreign Office.

Sent to Shanghai. Shanghai please repeat to Tokyo. Repeated to Hankow, Peiping, and Chungking.

HULL

893.515/1450

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the Counselor of the British Embassy (Mallet)

[WASHINGTON,] July 31, 1939.

Mr. Mallet telephoned this morning and said that the Embassy was pressed for information as to the Department's attitude in regard to the questions raised in the British Embassy's *aide-mémoire* of July 26 in regard to the currency situation in north China. This afternoon Mr. Mallet called in regard to the same subject and said that his Government was desirous of being informed whether the Department concurred in the view expressed in the British Embassy's *aide-mémoire* of July 26; that the British Government hoped that, if it should take a strong line, it might count on this Government's support, especially in view of the fact that the United States had just given notice to Japan⁸⁸ of intention to terminate the commercial treaty;⁸⁹ and that the British Government would be glad to have any suggestions which we might be in position to offer as to tactics which the British might best employ in their negotiations. He said that his Government hoped that we would make clear to the Japanese Government that we were interested in the currency situation and possibly inform the Japanese Government that we could not agree to any arrangement which might be arrived at in regard to currency matters without our assent.

I told Mr. Mallet that we had prepared a telegram to our Embassy

⁸⁸ Note of July 26, p. 558.

⁸⁹ Signed February 21, 1911, *Foreign Relations*, 1911, p. 315.

in Tokyo which would probably be signed this evening;⁹⁰ that in this telegram we had asked our Chargé, if he had not already done so, to inform the British Ambassador of the approaches which the Chargé had already made to various Japanese, officials and others, expressing this Government's interest in the broad phases of the Tientsin situation, including the question of currency; and that we had asked Mr. Dooman to continue to make known to the Japanese Government our interest in the currency matter and other broad questions related to the Tientsin negotiations. Mr. Mallet said that he thought this would be very helpful.

With regard to the point mentioned in the British Embassy's *aide-mémoire* of July 26 to the effect that the British Government felt that it was of the greatest importance that the British, French and American banks adopt a common policy, I said, that, as Mr. Mallet knew, the American banks so far as we were aware had up to the present followed such a common policy. He inquired what the attitude of the American banks was likely to be at some subsequent date and I replied that in my opinion this would depend largely upon the outcome of the conversations now taking place at Tientsin.

With regard to the point mentioned in the last paragraph of the British Embassy's *aide-mémoire* of July 26 in regard to the silver reserves now held in certain banks in the British and French Concessions at Tientsin, I said that we did not feel that we could appropriately offer any comment in regard to this particular phase of the currency question.

With regard to the British desire to receive suggestions as to tactics, I said that I did not believe that we had any suggestions to offer. I added that we would be glad to think over the matter in the light of the further information which Mr. Mallet had communicated and to get in touch with him in the morning. He said that he was coming to the Department on another matter about 11 a. m. and we arranged that he should drop in at my office thereafter.

M[AXWELL] M. H[AMILTON]

893.515/1404 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, July 31, 1939—8 p. m.

233. Reference Department's 201, July 15, 5 p. m.⁹¹

1. A reply has been received, in the form of an *aide-mémoire* from the British Embassy, to the Department's communication summarized in the telegram under reference. The Department assumes that your

⁹⁰ See telegram No. 233, July 31, 8 p. m., to the Chargé in Japan, *infra*.

⁹¹ Not printed; it reported the Department's *aide-mémoire* of July 15, p. 428.

British colleague will have been informed by his Government of the contents of this *aide-mémoire*, and assumes that he will have informed or upon request will inform you fully of its contents.

2. The Department desires that you inform the British Ambassador of what you have already done toward impressing the Japanese Government with the interest and concern of this Government in regard to the broader aspects of the situation at Tientsin, including the currency aspect (as reported in your telegrams 284, June 19, 8 p. m.,⁹² and 354, July 23, noon⁹³), and that you continue your efforts along this line. Although we do not share in every particular the British Government's views regarding the implications of the facts in the situation and regarding probable consequences of possible courses of action, we desire that you emphasize in your conversations with Japanese authorities the fact that the question of currency developments in China is necessarily a question of concern to the United States and that adverse effects upon American interests of action taken by the Japanese in connection therewith must inevitably adversely affect public and governmental opinion in this country.

HULL

893.515/1424

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] August 1, 1939.

The French Ambassador called at his request. The Ambassador said that his Government concurred in the views of the British Government in regard to the currency situation at Tientsin as set forth in the British Embassy's *aide-mémoire* of July 26 and that the French Government had instructed its Ambassador at Tokyo to inform the Japanese Government that the views of the French Government with regard to the currency situation were in accord with the views of the British Government. The Ambassador said that he thought this action would be useful by way of manifesting to the Japanese that there was solidarity between the British and the French.

The Ambassador asked what our attitude was toward the various questions mentioned in the British Embassy's *aide-mémoire* of July 26. I told the Ambassador of the instruction which the Department had sent to the Chargé at Tokyo on July 31.

During the course of the conversation the Ambassador said that he felt that it was important to support the British Government, as otherwise the British Government would be likely to go further than desired in making concessions to the Japanese. He said that this was

⁹² Vol. IV, p. 186.

⁹³ Vol. IV, p. 227.

what had happened when it appeared that the British could not count on American support in the currency negotiations; that the British had then agreed to a formula with the Japanese which carried serious implications for all foreign interests in China. The Ambassador said that thereafter the American Government had taken a positive step (he apparently referred to the notice given Japan of intention to terminate the commercial treaty).

I commented to the Ambassador that from the early stages of the Tientsin situation this Government had made it clear that it was interested and concerned in regard to the broader phases of the Tientsin situation. The Ambassador remarked that notwithstanding any action which the American Government had taken toward that end the impression generally held was that the United States had not been prepared to give definite support to the British in the Tientsin situation.

After some further comment of a general character, the conversation terminated.

M[AXWELL] M. H[AMILTON]

893.515/1409 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 2, 1939—4 p. m.

[Received August 2—10:15 a. m.]

382. Department's 233, July 31, 8 p. m.

1. I called on the British Ambassador this morning and after allowing him to read the telegram under reference explained in detail what I had done toward making clear to the Japanese Government the concern of the United States in the broader aspects of the Tientsin situation.

2. The British Ambassador reviewed at some [length] the negotiations which are taking place with the Japanese. He said that the various police questions might for all practical purposes be regarded as settled, although no agreement has as yet been reached on the question whether a small number of Japanese gendarme[s] who are to assist in the control of Chinese within the British Concession should be permitted to stay within the British Concession. Craigie's feeling was that this matter was not of any great importance and that he would have no great objection to accepting the Japanese position in this regard.

3. He said that a deadlock had been reached in regard to the silver and the currency questions and he expressed himself as being extremely depressed and pessimistic over the outlook. He had studied carefully the question of the ownership of the silver now kept in British Concession and he was not at all certain that the Chinese Government had a clear title to it. This silver, he said, had been kept

in North China by the local banks notwithstanding the order of the Chinese Government issued at the time of the reorganization of the Chinese currency calling for the silver to serve as currency reserve. He gathered that there had always been strong objection in North China to placing the [silver] now in Tientsin in possession of the Chinese Government. In spite of the British considerations, however, he did not see how he could agree to the turning over of the silver nominally to the North China authorities without causing strong resentment in Chungking. He had put forward to London a suggestion for the disposal of the silver in some manner which would be satisfactory to the Japanese without actually giving them possession of it, but he doubted whether his Government would approve of the plan. With regard to the Japanese demand that *Fapi* be prohibited in the British Concession, he saw no possibility whatever of a compromise. He had explained to the Japanese that to prohibit dealing in *Fapi* in the Concession would raise important political issues and the Japanese had modified their demand to the extent of proposing that only the Chinese within the Concession be prohibited from dealing in *Fapi*. He did not intend to accept this modified proposal.

4. Sir Robert went on to say that he is now marking time and waiting for the American Government to take some definite action along the lines taken yesterday by the French Ambassador who informed the Foreign Minister that the French Government would not recognize any arrangement affecting currency and silver effected between the British and the Japanese without the consent of the French Government. What I had already done and what I was instructed to continue to do was useful so far as it went but he wondered whether I could not make to the Foreign Office a statement similar to that made by the French Ambassador. I replied that in my opinion the instructions which I had were sufficiently broad to permit me to say to the Japanese Government that if the Japanese and British Governments were to agree to deny to American citizens in North China the legal currency of the Chinese Government there would be raised questions of direct concern and interest to the American Government but that I did not see how I could make to the Japanese Government any statement committing the American Government to a certain position without specific authorization. Sir Robert agreed but expressed the hope that I would telegraph the Department and ask for such authorization. This I do but without recommendation either way.

5. I am arranging to see the Vice Minister for Foreign Affairs tomorrow afternoon and I propose to make clear to him our concern in the broader problems which are being discussed between the British and the Japanese and in the course of the interview I shall say that denial to American citizens of *Fapi* especially would be regarded in the United States as a serious matter. The receipt, prior to the

forthcoming interview, of the authorization requested in the preceding paragraph would be appreciated.

Repeated to Peiping for relay to Chungking and Tientsin.

DOOMAN

893.102 Tientsin/414: Telegram

The Acting Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 2, 1939—8 p. m.

238. Your 382, August 2, 4 p. m., paragraphs 4 and 5. The Department approves your proposal to make clear to the Vice Minister for Foreign Affairs the concern of the Government of the United States in the broader problems involved in the current negotiations between the British and Japanese, including the currency aspect. However, with reference to currency matters, the Department desires that you do not go beyond a statement reading substantially as follows:

“The Government of the United States could not be expected to give assent to any measures arranged by third States which would purport to make illegal the use in any part of a sovereign State of the currency of the recognized government of that State.”

WELLES

893.4061 Motion Pictures/263

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

No. 2188

PEIPING, August 3, 1939.

[Received September 5.]

SIR: I have the honor to refer to the Embassy's despatch No. 2036 of May 4, 1939,⁹⁴ reporting the facts which appeared to indicate the formation of a motion picture monopoly in North China, somewhat similar in operation and scope to that now functioning in “Manchukuo”.

It has been ascertained that a motion picture production company, the North China Motion Picture Company, is definitely to be established in Peiping, in which the “Provisional Government” and the Manchurian Motion Picture Company will be equal investors, each contributing FRB \$250,000 to the enterprise. Recent articles in the vernacular press mentioned the establishment as being scheduled for early in August but it has been learned that, due to delay in the construction of the studio, to be located in the western suburbs, the formal inauguration of the company will take place at the end of August.

⁹⁴ Not printed.

The vernacular press states further that the "Provisional Government" is presently formulating laws and regulations governing not only the motion picture industry but also laws and regulations governing the exhibition of motion pictures in North China. Undoubtedly, this presages the establishment of a system of control which may well be monopolistic in character.

In connection with the formation of the North China company, it is of interest to note the establishment in Shanghai in June of the China Motion Picture Company, in which the "Reformed Government", a Japanese group and the Manchurian Motion Picture Company were investors, the "Government" contributing Lc \$500,000, and the Japanese group and the Manchurian Company each contributing Lc \$250,000. The vernacular press, in reporting the Central China project, stated that it was for the purpose of promoting cultural relations between Japan, "Manchukuo" and China through the medium of select films.

The establishment of a motion picture industry, which cannot but be under Japanese aegis, marks a further step in the Japanese penetration of China, and one which may well adversely affect the market for foreign films, chiefly American, especially if laws and regulations are enacted as to censorship and fees which make competition inordinately difficult with the Japanese-inspired product.

Respectfully yours,

For the Ambassador:
FRANK P. LOCKHART
Counselor of Embassy

893.515/1412: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, August 4, 1939—11 a. m.
[Received August 5—8:05 a. m.]

386. Paralleling steps taken in Manchukuo, the Provisional Government has promulgated a decree forbidding the taking out from territory under its jurisdiction or from bringing into the area foreign currency above 500 yuan in value (approximating United States dollars 40 at the present rate). Special permission must be obtained in the transport of foreign currency exceeding this amount. It is not stated whether the decree applies only [*sic*] to travelers' commercial remittances as well. The text of the decree has not been obtained but as soon as it becomes available a further report will be made.

This action, which may be the initial step towards an effective control over the export of capital and the earnings of foreign companies, is believed to be the logical development of the economic policy of

Japan, which envisages complete domination of North China. It is also believed that this action, taken in conjunction with the recent extension of control to all exports, is aimed to strengthen the Federal Reserve Bank currency.

The recent recrudescence of rumors pertaining to tariff requests in favor of Japan, together with the above mentioned action, indicate the economic exclusiveness of Japanese policy and the dark future for foreign interests in this area unless those interests cooperate with the Japanese on Japanese terms.

Repeated to Chungking, Tokyo, Shanghai, Tientsin. By mail to Chefoo, Tsingtao. Tsinanfu informed.

LOCKHART

898.5151/652 : Telegram

The Consul General at Tientsin (Caldwell) to the Secretary of State

TIENTSIN, August 4, 1939—noon.

[Received 3:44 p. m.]

177. My 163 of July 24, 5 p. m. and 166 of July 27, 3 p. m.⁹⁵ Tientsin Manager of Federal Reserve Bank yesterday informed a reliable American newspaper correspondent that the bank has received from the German Bank a formal application to cooperate fully on the link system through its branches at Tientsin, Peiping, and Tsingtao, and that the prompt approval of the Provisional Government is expected.

Tientsin Manager of Federal Reserve Bank expressed the private view that Japanese business interests in North China would be satisfied if the British and Japanese Governments would agree to seal the North China silver reserves, leaving the question of ownership to be determined at the end of hostilities, but he doubted whether the Japanese military here would be satisfied with this.

Repeated to Chungking, Peiping, Shanghai, Tokyo.

CALDWELL

893.515/1411 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, August 4, 1939—7 p. m.

[Received August 4—3:45 p. m.]

1122. A responsible official of the British Treasury also created an opportunity to indicate that an approach would be made to Washington. His version of the purpose of such an approach differed from

⁹⁵ Neither printed.

that given by the Foreign Office official reported in the Embassy's 1109, August 2, 4 p. m.⁹⁶ in that he emphasized how helpful it would be if the United States could make any concrete suggestions as to how the gap between the British and Japanese objections as regards the Chinese currency could in practice be bridged. He also implied that the business interests wished to give the United States Government an opportunity at that time to define its attitude and its willingness or otherwise to take action so that there should be no misunderstanding if Great Britain alone at a later stage was forced to give ground. This official implied that the question of sending a written communication to Washington was under consideration.

Asked in effect whether the real purpose of any such note was to avoid the possibility of future criticism or for technical financial considerations, the official merely replied that the British Government could think of no acceptable workable compromise and hoped that the United States might have helpful ideas. Asked in effect whether if any such scheme could be worked out he thought it would be accepted and faithfully carried out by the Japanese, the official admitted that it was "doubtful". He then went on to say that the Japanese were of course aware of the difficulty of Great Britain's present situation and that since the Japanese merely respected force it was the availability of the American Navy which is [*in?*] the end would count.

JOHNSON

898.515/1413 : Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, August 5, 1939—noon.
[Received August 6—8:05 a. m.]

390. Peiping's 386, August 4, 11 a. m. The decree of the Ministry of Finance, which became effective August 3, is concerned only with the currency carried by travelers and apparently does not affect commercial remittances. A traveler may take out of North China a sum not exceeding the amount which he brought in but in no case may more than \$500 in Federal Reserve Bank notes be exported or imported by the traveler. The decree provided a system of registration of currency brought into North China and for application forms for permits to export currency.

The decree provides that imports of currency from Japan or Manchukuo are subject to the currency laws in Japan or Manchukuo; if a permit for exportation is issued by Japan or Manchukuo for a sum in Japanese, Manchukuoan, or other foreign currency even in excess

⁹⁶ Not printed.

of the equivalent of 500 Federal Reserve Bank dollars, the permit will be accepted for importation into North China. Violations of the decree are punishable by a fine up to five times the amount of currency involved and the currency will be confiscated.

It is not stated whether the decree applies to travelers checks and letters of credit.

The Embassy believes that the extension of the decree to cover commercial remittances, similar to enactments in Japan and Manchukuo, is but a matter of time.

Repeated to Chungking, Tokyo, Shanghai, Tientsin. By mail to Tsingtao, Chefoo. Tsinan informed.

LOCKHART

600.939/362

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] August 8, 1939.

During a call the French Ambassador referred to previous conversations which he had held with Mr. Welles in regard to the putting into effect by the provisional régime in north China of additional export restrictions, effective as from July 17. The French Ambassador said that the French Government and the British Government were considering making representations to the Japanese Government in regard to this matter. He said that they were contemplating making representations also to the Chinese Government in regard to the restrictions which the Chinese Government had placed upon foreign trade. He inquired as to our attitude. I told the Ambassador that, when we had received from our offices in China information in regard to the new regulations of the provisional régime at Peiping providing that as from July 17 all export commodities in north China would be subject to control, we had studied the matter in the Division of Far Eastern Affairs and had reached the tentative conclusion here that, in view of previous representations which this Government had already made to the Japanese Government in regard to trade restrictions and export control in north China, including the statements on that subject contained in this Government's notes of October 6 and December 31 [30] to the Japanese Government, no useful purpose would be served by the making of additional representations with regard to the new export control measures of the provisional régime in north China.

The Ambassador inquired as to whether the British Government had approached us in the matter. I replied that according to my recollection the British Government had not done so.

M[AXWELL] M. H[AMILTON]

893.61331/160 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, August 9, 1939—6 p. m.

[Received August 10—7 a. m.]

395. Department's 150, June 3, 3 p. m.⁹⁷ and previous regarding Universal Leaf Tobacco Company. Covington, President of the Company, and Arbogast, Vice President, visited Tokyo in June and during their stay I arranged for them to confer informally with Hidaka, Head of the Economic Section of the China Board. Hidaka arranged that Arbogast on his return to Shanghai meet Japanese officials who are concerned with economic matters. Arbogast has informed me that after several interviews his company has not been given permission to send its own buyers to Pengpu and other Yangtze areas under Japanese occupation. Accordingly I addressed today to Yoshizawa⁹⁸ a letter setting forth the position in which the company has been placed in respect of buying operations in the Yangtze Valley and in Shantung as well and asked that at least restrictions placed on the company which were not equally placed on Japanese and other foreign competitors be [removed]. If a favorable reply is not received by August 25 I propose to make further and formal representations.

2. I would appreciate Covington, who is now in Richmond, being informed by the Department of the action taken.

Repeated to Shanghai; Shanghai please repeat to Peiping and Tsingtao and inform Shanghai office of the company.

DOOMAN

393.115 Tung or Wood Oil/167 : Telegram

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

WASHINGTON, August 9, 1939—9 p. m.

291. Reference Hankow's August 4, 9 a. m.,⁹⁷ and previous in regard to wood oil. In addition to the requests which the Department has received from American exporters for assistance in effecting removal from Hankow to Shanghai of American-owned wood oil, the Department has also received approximately 35 inquiries in regard to this subject from Senators and Congressmen and in addition a large number of letters from American consumers of wood oil. In order that replies to these inquiries, which continue to be made of the Department,

⁹⁷ Not printed.⁹⁸ Director of the American Affairs Bureau, Japanese Foreign Office.

may be as responsive as possible, the Department would appreciate being kept currently and fully informed in regard to any developments in the situation.

The Department assumes that the Hankow and Shanghai representatives of the concerned companies are working in close cooperation and that as soon as practicable they will make known to you their joint decision in regard to questions such as whether it is desirable to endeavor to effect removal of the wood oil from Hankow by means of a single sea-going vessel or by a number of river lighters.

Sent to Shanghai. Shanghai please repeat to Tokyo. Repeated to Hankow, Peiping and Chungking.

WELLES

600.939/368

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

No. 2206

PEIPING, August 11, 1939.

[Received September 5.]

SIR: I have the honor to enclose, as of possible interest to the Department, a copy of despatch No. 842 from the Consulate General at Tientsin, dated August 5, 1939,¹ in regard to a request addressed by the Tientsin Fur Exporters and Importers Association to the Japanese Consulate General at Tientsin for the granting of facilities for the transportation of furs from the interior of North China.

The Association points out with reason that a continuance of the restrictive measures taken by the Japanese authorities, unquestionably the military authorities, will adversely affect the fur business, possibly to the point where North China will no longer figure as a source of furs for the American market. The Association cites in evidence of the adverse effect of these restrictive measures that the trade has suffered a loss of 80 percent of its normal trade.

The Embassy has previously alluded to the incongruity between the regime's desire to obtain foreign currency reserves and the measures which are seemingly bound to curtail exports. It is hoped that the regime will become cognizant of this incongruity and that it will take steps to remedy the situation. Otherwise, the fur trade, and other export trades, will gradually dwindle to the vanishing point.

Respectfully yours,

For the Ambassador:
FRANK P. LOCKHART
Counselor of Embassy

¹ Not printed.

893.115 Tung or Wood Oil/188: Telegram

*The Consul General at Shanghai (Gauss) to the Secretary of State*SHANGHAI, August 14, 1939—4 p. m.
[Received August 14—12: 45 p. m.]

726. Reference Department's 270, July 29, 3 p. m. regarding wood oil at Hankow. I have this afternoon made oral and written representations to the Japanese Consul General urging that the Japanese authorities facilitate the movement from Hankow of approximately 3715 long tons of American owned wood oil valued at about 1,650,000 United States dollars. I suggested that foreign or Japanese bulk oil lighters or both be used to move the oil to Shanghai, or that an American tanker proceed to Hankow to transport the oil to the United States, Spencer Kellogg having cabled me from Buffalo that they are prepared so to arrange, or if a suitable Japanese tanker is available and desires to carry the cargo from Hankow to the United States this might be arranged. I have also represented that there are at Hankow certain other supplies of wood oil which while not American owned are under contract of sale for delivery to American firms in the United States, and have requested that arrangements be made to facilitate transportation from Hankow. The Japanese Consul General was familiar with this matter and while stating that there are many authorities concerned assured me that he would give it his best attention.

I suggest that it would be helpful if Tokyo would also press the matter at the Foreign Office. I am sending to Tokyo by air mail copy of my letter to the Japanese Consul General.

Repeated to Tokyo, Chungking, Peiping and Hankow.

GAUSS

893.5151/657: Telegram

*The Ambassador in China (Johnson) to the Secretary of State*CHUNGKING, August 15, 1939—1 p. m.
[Received August 15—7 a. m.]

499. Reference our 441, July 15, 10 a. m.,² and previous on currency situation. Following is Embassy's translation of note from the Ministry of Foreign Affairs dated August 14:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to refer to its previous communications requesting that the Embassy assist in the maintenance of the credit of legal tender notes and in the stabilization of the foreign exchange market.

² Not printed.

A communication has now been received from the Ministry of Finance stating:

'According to a report, the bogus Federal Reserve Bank in North China has, in view of the fall in value of the bogus currency which it has circulated, recently devalued the bogus currency and accorded facilities to exporters permitting them to sell their drafts to the Yokohama Specie Bank at the rate of 8 pence. On the other hand, the foreign exchange thus obtained may be sold to importers also at the rate of 8 pence.

It is observed that the enemy and the puppets have organized an illegal bank which issues fiat bank notes. Chinese and foreign merchants and civilians should uniformly refuse to use such bogus notes and should have absolutely no connection therewith. It is urgently necessary to effect adjustments and to take precautions against the present attempt of the bogus bank to purchase foreign exchange from exporters and sell it to importers at the rate of 8 pence.

Please take note and request the Embassies in China of the nations concerned to issue instructions to act accordingly in the matter.'

Apart from addressing separate communications to those concerned the Ministry has the honor to indite third person note for the Embassy's information and to request that the Embassy cause instructions to be issued to the concerned foreign banks and merchants in North China uniformly to refuse the bogus currency and absolutely not to cooperate with the bank in order to protect the legitimate interests of Chinese and foreign merchants. The courtesy of a reply is also requested."

In acknowledging the foregoing note the Embassy is stating that the matter has been referred to the Department.

Repeated to Peiping, Peiping please mail to Tientsin and Tokyo.

JOHNSON

393.115 Tung or Wood Oil/190 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 15, 1939—2 p. m.

[Received August 15—11:50 a. m.]

408. Shanghai's 726, August 14, 4 p. m., wood oil at Hankow.

1. I informally took up this matter some days ago at the Foreign Office and was told in confidence and off the record that the Japanese military authorities in China suspect that the wood oil purchased in recent months or under contract for sale to the United States is intended to be applied against the \$25,000,000 credit loaned to China. The Foreign Office therefore suggested that the conversations between Gauss and his Japanese colleague be allowed to develop further before any intervention in Tokyo was considered.

2. I suggest that the Department may now wish to consider in the light of the facts before it whether I should take any action. If I am desired to make representations on the basis of treaty rights, such representations should in my opinion be of the most formal character.

Repeated to Chungking, Peiping, Hankow.

DOOMAN

393.115 Tung or Wood Oil/209 : Telegram

The Acting Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, August 17, 1939—6 p. m.

258. Your 408, August 15, 2 p. m., and previous in regard to wood oil at Hankow. The Department is informed that the oil now held at Hankow by Spencer Kellogg and Sons and by the Werner G. Smith Company was bought and paid for in 1937 prior to the outbreak of hostilities and that Vongehr's oil was purchased for shipment during August-September 1937 (see in this connection Hankow's 174, July 26, 9 p. m.). The Department is also informed that oil belonging to the Bunge North American Grain Corporation referred to in Shanghai's 710, August 10, 6 p. m.,³ was purchased between July 9 and August 11, 1937, and that most if not all of the remaining oil under contract for delivery to American firms was purchased long ago. It is also the Department's understanding that no part of the Hankow oil owned by or under contract for delivery to American firms has any connection whatsoever with the 25,000,000 dollar credit referred to in your program under reference.

The Department leaves to your discretion the manner of approach to the Japanese Government but perceives no reason why the entire situation should not be freely discussed with and the above statements made known to the Japanese Foreign Office. As indicated in the Department's 291, August 9, 9 p. m., to Shanghai, a large number of members of Congress as well as American exporters of wood oil in China and the American paint and varnish industry as a whole are becoming thoroughly aroused over continuing and unwarranted interference on the part of the Japanese authorities with the shipment from Hankow to Shanghai of wood oil owned by or under contract for delivery to American firms—a situation which is further complicated by the fact that inability to effect shipment is creating for the concerned American interests heavy and ever-mounting costs on the score of such items as war risk insurance, storage fees including lighter rentals and general carrying charges. Furthermore, in view of the fact that much of the oil was purchased over 2 years ago, there exists the rapidly mounting risk of deterioration of the oil to a point where it cannot be used by the American consuming trade. The situation under discussion is one in regard to which the affected American interests and the American Government have been very patient and it is desired that in your approaches to the Japanese Government you make clear the Department's concern in the matter and its ex-

³ Not printed.

pectation that the Japanese authorities will without further delay take such action as may be required to the end that arrangements may be made for the shipment from Hankow to Shanghai of the wood oil under discussion.

Sent to Tokyo via Shanghai. Repeated to Chungking, Peiping and Hankow.

WELLES

393.115 Tung or Wood Oil/217: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 21, 1939—5 p. m.

[Received August 21—10:35 a. m.]

422. Department's 258, August 17, 6 p. m., regarding Hankow wood oil. I have today sent Yoshizawa a letter which is substantially a paraphrase of the telegram under reference. If no reply is received within the next few days I shall make a further approach. Shanghai please repeat to Chungking, Peiping and Hankow.

DOOMAN

393.115 Tung or Wood Oil/226: Telegram

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

WASHINGTON, August 24, 1939—6 p. m.

320. Your 765, August 23, 4 p. m.,⁴ in regard to wood oil at Hankow. In addition to the firms mentioned in paragraph 1 of the Department's 270, July 29, 3 p. m., the Department has also been approached by Arnhold and Company of New York which states that its affiliate at Hankow, the Arnhold Trading Company, holds on its behalf approximately 2,000 tons of oil which has been fully paid for and which is required for delivery to the paint and varnish industry in the United States.

The Department is confident that every effort is being made to expedite the making of such arrangements as may be required to effect the removal to Shanghai of such wood oil now at Hankow as is owned by or under contract for delivery to American firms.

Sent to Shanghai. Shanghai please repeat to Tokyo. Repeated to Hankow, Chungking and Peiping.

HULL

⁴Not printed.

393.115 Tung or Wood Oil/228: Telegram

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

HANKOW, August 26, 1939—6 p. m.

[Received 10:50 p. m.]

225. Reference is made to the first paragraph of the Department's 320, August 24, 8 [6] p. m. to Shanghai. During the course of a preliminary survey of general American cargo held up at Hankow this Consulate General asked the Arnhold Trading Company (British) of Hankow how much cargo it had destined for the United States. A letter from that company dated January 25, 1939 informed this office that it had then only 60 tons of China grass contracted for sale, although it stated further that it held stocks of wood oil amounting to 1,200 tons "which will almost certainly eventually be sold for shipment to the United States". As the Arnhold Trading Company has not yet approached this office, though aware of the negotiations in progress, the present claim is a new and interesting development which should be closely scrutinized.

A leading American shipper here has been advised by Japanese with official connections that any effort to include other than bona fide general American cargo will wreck negotiations. Recently one American firm here suggested the inclusion of its stocks now held at up river points, for which substitution would be made here from undelivered stocks held by the company at Hankow for eventual delivery to non-American firms. The Consulate General suggested that such an effort might tend to imperil all negotiations. This Consulate General's representations of July 19 (Hankow's 174, July 26, 9 p. m.) were made on behalf of the Werner G. Smith Company, Spencer Kellogg and Sons, and O. E. Vongehr, of the American [-owned] character of whose wood oil there was no question.

Repeated to Shanghai, Chungking and Peiping. Shanghai please repeat to Tokyo.

SPIKER

393.115 Tung or Wood Oil/232: Telegram

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

WASHINGTON, August 29, 1939—7 p. m.

66. Your 225, August 26, 6 p. m., and Shanghai's 765, August 23, 4 p. m.⁵ Department is of the opinion that, as indicated in Shanghai's 726, August 14, 4 p. m., emphasis should be placed primarily upon American-owned wood oil but that mention should also be made of a second category of oil covering supplies at Hankow which although

⁵ Latter not printed.

held by non-American firms are under contract of sale for delivery to American firms. It is not the Department's desire that in approaching the Japanese authorities in regard to this subject mention be made of non-American wood oil which if removed from Hankow might ultimately be sold to the consuming trade in the United States. In consequence, there should be included in the second category mentioned above only such oil as has been demonstrated to your satisfaction to be under definite contract of sale for delivery to American firms in the United States.

Sent to Hankow, repeated to Shanghai, Chungking and Peiping. Shanghai please repeat to Tokyo.

HULL

893.515/1435: Telegram

The Consul at Chefoo (Roberts) to the Secretary of State

CHEFOO, September 2, 1939—3 p. m.

[Received September 2—noon.]

1. Japanese naval authorities yesterday in call at British Consulate with Manager of Hong Kong and Shanghai Banking Corporation and requested that the British bank discontinue dealing in Chinese national currency. Upon British Consul refusing, the Japanese naval officer said Bank would be picketed to stop the use of Chinese national currency.

2. Several Japanese sentries, one Chinese police in uniform and one Chinese plain clothes policeman this morning began picketing the Hong Kong and Shanghai Banking Corporation searching all persons including women leaving the bank for Chinese national currency.

Sent to Peiping. Repeated to Chungking.

ROBERTS

393.115 Tung or Wood Oil/240: Telegram

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

HANKOW, September 6, 1939—noon.

[Received September 7—9:40 a. m.]

Wood oil at Hankow. Written confirmation was received today in a letter September 5 signed by the Japanese Acting Consul General [at] Hankow of the oral notification referred to in my telegram 227, August 31, 6 p. m.⁶ The letter states

"The Japanese Government has decided to facilitate the shipment of all wood oil belonging to American firms existing in Hankow. Upon

⁶ Not printed.

the necessity to confirm the ownership of wood oil I also request that a complete record of all documents pertaining to the ownership of said product be presented at your earliest convenience."

It further states

"This shipment of wood oil is facilitated under the understanding that this case shall not be made the precedent to future shipments and that as all wood oil should have been exported under the present facilitations offered, further requirements on this matter shall not be presented hereafter".

2. It is noted that above letter refers to shipment of "all wood oil belonging to American firms existing in Hankow." Japanese Consulate General, however, orally expressed a desire for figures for both categories of oil mentioned in Shanghai's 765, August 23, 4 p. m.⁷

3. Japanese Consulate General has been informed today that the desired information is being sought from American Consulate General at Shanghai since certain firms concerned have representatives only in that city. All information available to this office is indicated in my September 1, 9 a. m. to Shanghai.⁷

Sent to Shanghai, repeated to Chungking, Peiping. Shanghai please repeat to Tokyo.

SPIKER

393.115 Tung or Wood Oil/241 : Telegram

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

SHANGHAI, September 7, 1939—4 p. m.

[Received 7:27 p. m.]

Reference your September 6, noon, regarding wood oil. The information which had been requested by the Japanese authorities here was sent to Japanese Consulate General yesterday and we understand it has been forwarded to Tokyo whence a reply is expected in a day or two. Japanese Consul General told me orally yesterday afternoon that favorable action is being taken but he does not know the details. I am sending you by airmail copy of the information supplied to Japanese Consul General here. If anything further is now required at Hankow please ascertain and inform me exactly what is wanted that is not available at Hankow and is required from firms here.

Sent to Hankow, repeated to Department, Chungking and Peiping.

GAUSS

⁷ Not printed.

393.115 Tung or Wood Oil/243 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, September 8, 1939—4 p. m.

278. Reference Hankow's September 6, noon, to Shanghai and Shanghai's September 7, 4 p. m., to Hankow (which Shanghai is hereby requested to repeat to you) in regard to wood oil.

The stipulation included in the Japanese Acting Consul General's letter of September 5, as quoted in Hankow's telegram under reference, that "further requirements on this matter shall not be presented hereafter" cannot of course be agreed to, and the Department therefore desires that by such means as you may deem appropriate you make clear to the Japanese authorities that the American Government reserves the right to approach the Japanese Government at all times in regard to any matter affecting American rights and interests.

Sent to Tokyo via Shanghai. Repeated to Hankow, Chungking and Peiping.

HULL

893.515/1441 : Telegram

The Consul at Chefoo (Roberts) to the Secretary of State

CHEFOO, September 11, 1939—2 p. m.

[Received September 11—8:45 a. m.]

My September 2, 3 p. m. concerning the picketing of the British bank. On September 9, having learned that at least 15 Americans during the previous week had been searched for Chinese national currency by Chinese pickets supported by armed Japanese sailors and that the picketing was interfering with the legitimate affairs of American merchants and missionaries, I lodged emphatic protest with Japanese Consul and requested the Japanese naval commander to exempt American citizens from the search.

The Japanese Consul has now informed me that the commander of the Japanese naval landing party has granted the request and orders will be issued exempting American citizens from search by the pickets at the bank.

Sent to Peiping. Repeated to Chungking.

ROBERTS

393.115 Tung or Wood Oil/248 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 12, 1939—5 p. m.

[Received September 13—8:45 a. m.]

470. Our 422, August 21, 5 p. m. The following is our translation of Yoshizawa's reply to my letter:

"Tokyo, September 8, 1939.

My Dear Dooman: I have carefully perused the contents of your letter of August 21, 1939 concerning the shipment of the wood oil which has accumulated at Hankow and which is owned by American commercial concerns.

I note from your letter that the opinion is held that this accumulation of wood oil was caused by the 'continuing unwarranted interference of the Japanese authorities'. Such an opinion, indicating a misunderstanding of the true motives underlying the action taken in regard to this question by the Japanese authorities is greatly to be regretted.

In the first place, the question of the right of navigation of the Yangtze river is one which must be considered in connection with the rectification of such discriminatory relationships as the Concessions, extraterritorial rights, et cetera, which exist in China. Leaving aside, for the time being, this general discussion, it is to be noted that the present closing of the Yangtze river is being carried out for strategic reasons; that is, expediting the transportation of men and military supplies for Japan's armed forces, protection of the secrecy of military actions, elimination of one route of assistance to the Chiang Kai Shek regime, maintenance of peace and order, consideration of the effect of the removal of the blockade upon the popular mind, et cetera. Japanese nationals, as well as others, are suffering a great deal from this blockade.

Nevertheless, Japan has been following a policy of giving just consideration to specific problems and of making efforts to reach a practical solution of as many of these problems as possible. Consideration was given to the possibility of some special treatment in this case owing to the change in the position of wood oil and to the small amount involved. At the same time, in view of the favorable impression received by Japanese authorities at the front because of the fact that since the beginning of the incident American nationals have, compared with nationals of other third powers, taken an attitude which is somewhat appreciative of the position of Japan in relation to the prosecution of military activities, and for other reasons, special consideration has been given since last spring to this question also by those locally concerned. At the present time special negotiations are being carried on in an effort by some arrangement to reach a solution of this question.

In the meantime, however, the American Government suddenly abrogated the treaty of commerce and navigation between Japan and the United States. Considering the time, method, and motive of the above action, the Japanese Government must consider it an undiplomatic and unfriendly act. Accordingly, Japan has had to reexamine its general relations with the United States, and under these circumstances, the solution of this question also was suspended for the time being.

As I have stated, progress has already been made under a policy of seeking a practical and convenient settlement. The local Japanese authorities have been, as heretofore, entrusted with the disposition of the question of the wood oil. At present the appropriate local Japanese authorities are devising some method of shipment in so far as it does not violate the military objectives for which the Yangtze river was closed. They are exerting particular efforts to offer accom-

modations as a special friendly treatment limited to this instance and utilizing extra space available in the holds of ships used for military purposes. This is limited to wood oil which at the present time is clearly determined to be and to have been for some time past American property.

It is a matter for congratulation that some more progress, as I have pointed out, is being made in the actual conversations among the individuals concerned with regard to this problem of the wood oil. It is to be regretted that your Government should adopt an attitude towards this problem, which is difficult of solution without practical and friendly consideration, of persisting in theoretical arguments using such words as 'unwarranted interference, etc.' I must bring to your attention the fact that such an attitude does not contribute to the solution of the many problems arising out of the critical conditions at present prevalent throughout China.

Very truly yours, Seijiro Yoshizawa, Director, American Bureau, Ministry of Foreign Affairs.

Eugene H. Dooman, Esquire, Chargé d'Affaires ad interim of the United States of America, Tokyo."

Shanghai please repeat to Chungking, Hankow, Peiping.

DOOMAN

393.115 Tung or Wood Oil/249: Telegram

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

SHANGHAI, September 13, 1939—1 p. m.

[Received 1:50 p. m.]

816. Following is text of letter dated yesterday received this morning from the Japanese Consul General at Shanghai:

"I have the honor to acknowledge the receipt of your letter of August 9th concerning the shipment of American owned wood oil which is now at Hankow.

This question, as I informed you at our conversation on the matter on the above date, had long been a matter of special and careful consideration by the Japanese authorities concerned. They have studied the possibility of allowing the American owned wood oil to be shipped down the Yangtze River without coming in contradiction with the present state of the navigation on the river.

Your letter above referred to was brought at once to the attention of my Government, and I now have the honor to state that I have been instructed to inform you that they have taken the matter up again and have come to the decision that the bulk of wood oil, as was ascertained as American owned in your letter dated September 6th, is to be given facilities to be shipped from Hankow.

I believe you will readily appreciate the difficulties placed in the way of this decision owing to the present restrictions for military necessities on the river navigation. Accordingly, several devices had to be worked out, viz: the wood oil in question is to be first purchased by the Japanese military authorities as a sort of military supply, to be

repurchased by the American firms, the owners, upon clearance of the Yangtze River, for which purpose the transport had to be selected from among those vessels which have the accommodation for vegetable oils, which, on its down river voyage, is scheduled to cease to be the transport at the moment when the oil is repurchased by the American firms, to be shipped direct to the American coast.

Instructions have already been given to a Japanese shipping company along the above mentioned practical arrangement, who, on their part, will soon be ready to discuss the matter into [*in?*] detail with the American firms.

You would also appreciate that one of the suggestions put in your letter of August 14th contributed much towards this satisfactory decision, together with questions of favorable capacity available as military transport.

There are some more minor points to be adjusted in this arrangement before the wood oil is to be actually shipped at Hankow, probably at the end of this month, which may be left with the companies concerned. I am writing to you in order to inform you as soon as possible of the principle of our decision so far reached. Therefore, this communication might be supplemented later when deemed necessary.

I might add that the above decision is the outcome of what had long been considered by the Japanese authorities concerned and that, but for the unexpected abrogation of the commercial treaty of 1911, it would have been reached sooner and with less difficulty."

While the foregoing communication refers only to the American-owned oil we have subsequently been informed orally that it may be considered as extended also to cover the oil under contract of sale. We are also [informed] that the Japanese shipping company concerned is the Nippon Yusen Kaisha and that the arrangements are to be made at Shanghai with possible reference of any details to Hankow.

I am very much concerned regarding the "device" of purchase of the cargo by the Japanese military and repurchase by the American owners. This matter has been taken up informally with the Japanese Consulate General who tell us that this was a point insisted upon by the Japanese military. I have pointed out that even though it may be said that the transfer of ownership is merely nominal, and aside from the fact that a principle is involved, there is the practical consideration that a transfer of title to the Japanese military would affect the ability of the owners of the oil to obtain adequate insurance and there is also involved the question of responsibility for any losses which might be incurred during the transit of the oil from Hankow to Shanghai. I shall report developments as soon as possible.

Repeated to Tokyo, Chungking and Peiping.

GAUSS

893.5041/54: Telegram

The Counselor of Embassy in China (Lockhart) to the Secretary of State

PEIPING, September 13, 1939—4 p. m.

[Received 10:15 p. m.]

484. Standard Vacuum Oil Company here states that it has received reports from a number of its agents in Shansi, the Kalgan (Mengchiang) area, southwestern Hopei, and northern Honan, to the effect that the local authorities, Chambers of Commerce or special "control committees" acting presumably under orders, have recently issued instructions fixing wage scales and prices for various commodities, including kerosene and candles. The company reports that the prices fixed for kerosene and candles are in all cases several local dollars below the prices at which it has authorized its agents to sell and the company states that its selling prices are regulated to cover cost in United States dollars, plus import duties, freight, handling charges, et cetera, and that it is unable to sell at the prices which have been fixed by the local authorities. In one place, Sinsiang, Honan, the company's agent has been ordered by the local authorities concerned to sell at the fixed price and the company believes, from reports of its agents, that similar instructions may shortly be issued at other places.

The company states that it seems clear, from the fact that more or less similar instructions have been issued over a wide area, that the orders emanate from some leading authority, presumably the Japanese authorities in North China or the Japanese controlled "Provisional Government". The company requests that the matter be taken up by the Embassy with the appropriate authorities.

The droughts and floods in North China together with currency and trade under the present conditions have resulted in sharply increased prices for commodities and the Japanese and their Chinese agents are apparently attempting to meet the problem by fixing prices; with the exception of Peiping and Tientsin the fixed price lists generally include kerosene and candles. The Embassy knows of no grounds for protest against the fixing of commodity prices by the local authorities provided no discrimination is involved, but it considers that representations are warranted and should be made against any attempt to compel American firms to sell at such fixed rates. The Standard Vacuum Oil Company states that practically all the kerosene and candles in this area are supplied by three firms (two American and one British) and that if the authorities concerned are unable to force these firms to sell at the fixed prices, there will have to be a revision upwards of such prices to meet the point at which the companies can sell and retain a reasonable profit. It is understood

that the only other firm in this business (a Japanese concern) can handle only a small fraction of the business and cannot meet the demand in this territory.

The Embassy proposes subject to the Department's approval to take the matter up with the Japanese Embassy with a view to obtaining the cancellation of any orders to force American firms to sell at prices unacceptable and unprofitable to them, but will appreciate the comment of the Department on the matter.

Copy by mail to Chungking, Tientsin and Tokyo.

LOCKHART

393.115 Tung or Wood Oil/253: Telegram

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

WASHINGTON, September 15, 1939—4 p. m.

346. Your 816, September 13, 1 p. m., in regard to wood oil.

1. The Department is both surprised and concerned to note that at this late date the Japanese authorities are seeking to qualify their agreement to facilitate the shipment of all American-owned wood oil now at Hankow by apparently insisting that, as a condition precedent to the removal of such oil, American owners shall first sell their stocks to the Japanese military authorities on an understanding that, following clearance of such stocks from the Yangtze, the prior owners may repurchase their respective lots of oil. Such a procedure would, as indicated in your telegram under reference, involve not only a matter of principle but also a number of practical considerations, and the Department thoroughly approves of the approach which you have made to the Japanese authorities in the matter.

2. The question whether or not the concerned American interests shall follow the procedure under consideration is a matter for decision by them. To those American interests which elect to follow that procedure you should make clear that the Department cannot in any way be a party thereto and that all of their arrangements should be made directly with the Japanese authorities. To those American interests which elect not to follow the procedure under consideration you should say that, although the Department is not in position to prophesy what the outcome may be, it will continue in its endeavors to effect removal from Hankow of the American-owned wood oil now at that port.

3. You may in your discretion make known to your Japanese colleague the substance of any part of the foregoing.

Sent to Shanghai. Repeated to Hankow, Chungking and Peiping. Shanghai please repeat to Tokyo.

HULL

893.515/1444: Telegram

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

CANTON, September 16, 1939—5 p. m.

[Received September 17—7:45 a. m.]

On September 3, the Japanese authorities began a strict search of all Chinese entering or leaving Shameen and refused to let pass those carrying local or Hong Kong currency. On September 12, the restrictions on outward movements of currency from Shameen were removed but the inward movement of Hong Kong currency continued to be rigidly restricted. As a consequence the business of American firms, principally oil companies, has been greatly hampered and the business of National City Bank with Chinese clients has been practically stopped.

This office had discussions with the Japanese Consulate General on September 5th, 8th, and 13th. Throughout the Japanese failed to advance any convincing explanation of their action, alleging, however, that it is necessary to curb currency speculation. It is believed that the Japanese contemplate maintaining these restrictions for some time.

As a palliative Japanese military authorities proposed to the local office of Standard Oil Company that to avoid the restrictions its Chinese dealers in the city might pay their accounts through the Yokohama Specie Bank. The company has not agreed to the proposal.

It is believed that the purpose of the Japanese action is primarily to divert Hong Kong currency to the Japanese banks for foreign exchange purposes and secondarily to induce Chinese merchants to do business with Japanese agencies. Chinese hitherto have been dealing largely with non-Japanese foreign banks. On September 14, I appropriately protested to the Japanese Consul General against the imposition of restrictions on the free movement of Hong Kong currency between the city and Shameen, pointing out that it constituted an unwarranted infringement of the right of American firms freely to carry on legitimate business.

The matter is being reported by despatch, copy of which will be sent to the Department by air.³

The Embassy will be kept informed of developments. My British colleague has taken similar action and is reporting to his Embassy.

Sent to Peiping, repeated to Chungking.

MYERS

³Not printed.

893.5041/54: Telegram

*The Secretary of State to the Counselor of Embassy in China
(Lockhart), at Peiping*

WASHINGTON, September 18, 1939—2 p. m.

196. Your 484, September 13, 4 p. m. The Department concurs in your view that efforts on the part of the local authorities to force sales by American firms at prices which those firms consider to be unprofitable offer grounds for protest and authorizes you to make whatever local representations you may consider appropriate.⁹ If your representations fail to achieve their object please inform the Department and consideration will be given to taking the matter up with the authorities at Tokyo.

Sent to Peiping only. Please send copies by mail to Chungking, Tientsin, and Tokyo.

HULL

393.115 Tung or Wood Oil/255: Telegram

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

HANKOW, September 18, 1939—4 p. m.

[Received September 18—8:30 a. m.]

Reference your [*Shanghai's*] 825, September 15, 7 p. m., to the Department and Department's 250 [350], September 16, 5 p. m.,¹⁰ in regard to wood oil. Local holders of American wood oil have been advised in the sense of the above telegrams and are seeking authorization from their Shanghai offices to proceed with direct negotiations here. All firms have decided to follow procedure suggested by Japanese military.

Acting Japanese Consul General has informed me that N. Y. K. steamer *Taketoyo Maru* is due to load second shipment of American wood oil here on October 15.¹¹

Sent to Shanghai, Chungking, Peiping.

SPIKER

893.61331/165: Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, September 29, 1939—1 p. m.

296. Your 395, August 9, 6 p. m., Universal Leaf Tobacco Company. In view of imminent opening of tobacco buying season, the Depart-

⁹ Further local representations were made in similar cases.

¹⁰ Neither printed.

¹¹ The first shipment of wood oil from Hankow on the Japanese vessel *Tokaoka Maru* left Shanghai October 10 (393.115 Tung or Wood Oil/270).

ment assumes that you, Shanghai and Tsingtao are continuing to follow closely, with a view to rendering such assistance as may be appropriate and practicable, the efforts of the Company to make satisfactory arrangements for purchasing tobacco in Shantung and in the Yangtze valley area. Please keep Department informed by naval radio of important developments.

Sent to Tokyo via Shanghai. Repeated to Tsingtao.

HULL

893.515/1446 : Telegram

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

CANTON, September 30, 1939—5 p. m.

[Received 5:40 p. m.]

Referring to my telegram September 16, 5 p. m. and despatch No. 32 of September 15,¹² the Japanese Consul General in reply to my [protest] of September 14 against the imposition of currency restrictions stated in substance that the existing restrictions have been imposed solely for the purpose of eradicating speculation in currencies and that although there is no intention of interfering with legitimate operations of third power nationals abnormal conditions in Canton make necessary the continuance of the restrictions.

Indications are that no relaxation in the existing restrictions is to be expected in the near future. The business of the National City Bank continues to suffer and the Hong Kong office of the Standard Oil Company has instructed the manager of the local office not to take the risks involved by his making collections personally from agents in the city.

In the light of all the circumstances I recommended for consideration the making of appropriate representations in Tokyo.¹³

Sent to Peiping. Repeated to Chungking.

MYERS

893.61331/168 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, October 6, 1939—4 p. m.

[Received October 6—7:30 a. m.]

199. Reference Department's 296, September 29, 1 p. m. to Tokyo via Shanghai. Japanese military mission in direct interview with the Universal Leaf Tobacco Company here stated it may require com-

¹² Latter not printed.

¹³ The Department instructed the Chargé at Tokyo on October 9 to make, at his discretion, appropriate representations to the Japanese Foreign Office, which he did on October 21.

pany to buy Federal Reserve Bank currency at official rate of exchange for at least two-thirds of company's purchases of leaf in Shanghai. Later a company official and I interviewed Japanese Consul who invited "counter offer" from company. Today company representative and I saw Japanese Consul and informed him company had no counter offer to make and all we asked was that company engage in leaf business on same basis as Chinese and Japanese leaf companies. Japanese Consul will consult military officials and inform us in a few days.

Repeated to Peiping and to Shanghai. True reading to Tokyo by air mail.

SOKOBIN

893.61331/169 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, October 9, 1939—5 p. m.

[Received October 9—4 a. m.]

511. Department's 296, September 29, 1 p. m., and other correspondence regarding Universal Leaf Tobacco Company.

1. Negotiations carried on by us here and by the company in China over a period of more than 4 months were completely unsuccessful. The sending by the company of American tobacco buyers to tobacco centers in Honan and Anwei was definitely refused on the ground that military operations were in progress, and permission for purchase of tobacco in Shantung was made conditional upon purchase with foreign exchange at official rate of 1 shilling 2 pence of two-thirds of total federated reserve currency to be expended by the company for buying tobacco. Notwithstanding repeated representations by us, the Foreign Office holds out no promise of obstructions to the company's operations being removed.

2. After consultation with the vice president of the company and with his assent, I addressed today a formal note to the Minister for Foreign Affairs setting forth at length the salient features of this case and protesting against prevention of exercise by American citizens of right to travel and against discrimination. The concluding paragraph of the note reads:

"I have previously alluded to the assurances which the American Government has so frequently received from the Japanese Government that American rights and interests in China will be respected. There is, so far as I am able to perceive, no warrant of any kind whatever for the obstructions which have been placed in the way of commercial operations by an American firm of the highest reputation and standing. The American Government will, therefore, expect that the Japanese Government, looking toward the implementation of its as-

surances, will take prompt and effective action calculated to permit the resumption by the company of its operations in China.”

Shanghai please repeat to Chungking, Peiping, Tsingtao.

DOOMAN

393.115 Tung or Wood Oil/273: Telegram

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

HANKOW, October 23, 1939—2 p. m.

[Received—7:26 p. m.]

250. Referring to the Department's No. 76, October 18, 6 p. m.,¹⁴ this office believes that no good purpose will be served by making further approaches to the Japanese authorities in regard to movement on the Yangtze of American cargo in general and of cargoes mentioned in Department's telegram in particular, unless the American authorities are prepared to negotiate at length on basis of eventual arrangements of "wash" sale of cargo to the Japanese here as stated in Shanghai's No. 825, September 15, 7 p. m.¹⁴ concerning wood oil and as subsequently notified to this office by Japanese Consul General; the Japanese military are adamant on this point evidently in order to preserve flimsy fiction that only military supplies may be shipped on so-called military transports. In view of instructions in second paragraph of the Department's telegram No. 346, September 15, 4 p. m. to Shanghai concerning wood oil, it is assumed that American authorities are "not in any way to be a party to" arrangements of the nature described.

2. Further, this office is reliably informed that at least one large British firm here, without British official intervention, is now shipping ramie bristles and other cargoes by the device of "wash sales" to private Japanese shipper for shipment to Shanghai where title reverts to the British owner of the goods. Japanese shipper makes all the arrangements with the military. Under such circumstances I perceive no reason why the local British firm Arnhold Trading Company, Limited should not, entirely on its own responsibility, directly arrange for shipment to Shanghai of the 60 tons of ramie allegedly contracted for by the New York branch of the firm. The same view is held in respect to such local agent as H. Rosenhirsch and Company, New York, or other American consignee of cargo possibly still held in Hankow, may wish to appoint agents to attempt shipment from Hankow to Shanghai. This office is continuing investigation of Rosenhirsch cargo and of possible other cargo held for bona fide American consignees. Further telegraphic report will be made.

¹⁴ Not printed.

3. Irrespective of final action, it is suggested that no action be taken by American authorities in relation to the Arnhold ramie shipment until after wood oil shipments have left Hankow. The Japanese military authorities appear to have suspected *bona fides* of Arnhold Trading Company, Limited's shipment and certain military authorities proposed that British-owned wood oil of both Arnhold and Bunge be excluded from special arrangements for shipment to the United States. In this regard see my 225, August 26, 6 p. m. to the Department and my September 1, 9 a. m. to Shanghai.¹⁵ Shipment was subsequently permitted. Steamer[s] *Taketoyo Maru* and *Alaska Maru* have arrived at Hankow and loading of all wood oil for American consignees will probably be completed within next 10 days.

Repeated to Chungking, Peiping and Shanghai.

SPIKER

611.939/217

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

[Extracts]

No. 2627

SHANGHAI, October 23, 1939.

[Received November 15.]

SIR: With reference to my despatch no. 2496, of September 8 [5], 1939,¹⁶ reporting attempts of the Japanese military authorities to establish a monopoly of the China egg trade in favor of the Mitsui Bussan Kaisha, I have now the honor to enclose copies of letters dated October 19th and October 23d, from the Henningsen Produce Company, Federal Inc., U. S. A.,¹⁷ detailing the local situation in regard to this matter and protesting the seizure of certain egg supplies shipped to Shanghai for this company on Japanese vessels and their diversion to the Japanese monopoly interests.¹⁸

I have addressed a protest in this matter to the Japanese Consul General at Shanghai, and enclose a copy thereof¹⁶ for the information of the Department.

The egg supply of Shanghai for the China egg trade comes from nearby Yangtsze delta ports, and from Yangtsze ports up river as far as Wuhu, and other nearby places. Japanese flag shipping, only, is permitted on the Yangtsze. For many months, and until recently, British flag vessels plied to the delta ports of the lower Yangtsze, below the Kiangyin boom; but they have now been driven off by the Japanese

¹⁵ Latter not printed.

¹⁶ Not printed.

¹⁷ Neither printed.

¹⁸ In despatch No. 2637, October 27, the Consul General at Shanghai reported a similar complaint from the Borden Company (611.939/218).

military restrictions and other obstacles of Japanese invention, so that only Japanese flag vessels now visit such ports and transport cargo therefrom to Shanghai. While for some time it has been possible for American and other companies engaged in the egg trade to bring their cargoes to Shanghai by this means, it is now reported that the Japanese military authorities have directed that such traffic shall cease and that all supplies carried by the Japanese flag vessels shall be diverted to the Mitsui Bussan Kaisha, in support of the attempted Japanese monopoly.

Respectfully yours,

C. E. GAUSS

611.939/199 : Telegram

The Secretary of State to the Consul at Swatow (Young)

WASHINGTON, October 26, 1939—7 p. m.

11. Your October 20, noon, to Peiping.¹⁹ A Japanese Embassy statement to the press of October 23¹⁹ gives details of the second linen shipment from Swatow and continues

"The exporters thus benefited donated 175,000 Chinese dollars to the local Welfare Committee as an expression of their appreciation of the efforts of the Japanese authorities in affording the export facilities. The donation will be used for the general welfare and for the maintenance of peace and order in the locality. Furthermore, the Japanese authorities there promised to consider facilitating future transportation and importation of materials."

The Department would appreciate receiving your comment on this statement and any information discreetly obtainable in regard to the "donation".

Sent to Swatow. Repeated to Peiping and Shanghai.

HULL

893.515/1460 : Telegram

The Consul at Chefoo (Roberts) to the Secretary of State

CHEFOO, October 28, 1939—6 p. m.
[Received October 29—2:50 a. m.]

For some time police agents at passenger jetty have been searching passengers arriving at Chefoo for Chinese national currency and confiscating any old currency found in their possession.

The first case involving Americans was reported to this Consulate October 21st when a police agent searched Willey G. Abouchar, an

¹⁹ Not printed.

American citizen arriving from Shanghai, and his wife, confiscating 6 dollars Chinese national currency.

The victims reported the matter to the Consulate while the search was on and my intervention led to the immediate return of the money.

October 27th I used the incident as a basis for an oral protest to the Chief of the Police Affairs Bureau against the illegal search of Americans and attempted confiscation of American property, requesting Chief of Police to issue orders exempting Americans from search. He refused, saying that he was carrying out orders received from Municipal Government, and referred me to the Mayor's office. I am repeating my protest and request in a formal letter to the Mayor of Chefoo pointing out that confiscation of American property is a violation of treaty rights.

Sent to Peiping, repeated to Chungking.

ROBERTS

611.939/210: Telegram

The Consul at Swatow (Young) to the Secretary of State

SWATOW, October 31, 1939—noon.

[Received 2:04 p. m.]

62. Referring to Department's telegram No. 11, October 26, 7 p. m. to Swatow regarding linen shipments. On the first shipment of 1186 cases or 483 cubic tons made in September exporters were assessed \$500 Chinese national currency per ton in addition to a Swatow Shanghai freight rate of 41 Chinese dollars per ton while on the second shipment consisting of 861 cases or 343 cubic tons the assessment was at the same rate but the freight rate was increased to \$98 per ton. Therefore, on the first shipment the assessment was about \$241,000 and on the second \$176,000 Chinese currency. The assessments and freight charges were paid to Mitsui Bussan Kaisha, but what disposition was made of the payments cannot be reliably ascertained. The foregoing is common knowledge in Swatow and presumably in Shanghai.

Repeated to Peiping, Shanghai.

YOUNG

611.939/209: Telegram

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

SHANGHAI, October 31, 1939—6 p. m.

[Received October 31—1:55 p. m.]

959. Reference Department's 11, October 26, 7 p. m., to Swatow regarding linen shipments. Shanghai exporters with Swatow connections, including Lian Brothers, principal shipper from Swatow,

deny any such donation was made. They state both shipments were arranged entirely through Mitsui Bussan Kaisha to whom freight charges were paid at the rate of Chinese dollars 598 per ton, as against Chinese dollars 15 per ton prior to hostilities. They add that about Chinese dollars 500 per ton were required to "arrange" shipments, which totaled about 800 tons, but that they have no knowledge of allocation of part of this sum to Welfare Committee for purposes alleged.

Repeated to Peiping and Swatow.

GAUSS

893.515/1461 : Telegram

The Consul at Canton (Krentz) to the Secretary of State

CANTON, November 1, 1939—noon.
[Received November 1—4:12 a. m.]

Reference Canton's October 23, 3 p. m.²⁰ Japanese Consul General has officially informed me that all currency restrictions will be removed effective today but adds that "If speculation is repeated by residents of Shameen the authorities will be obliged to take appropriate steps."

Details will be reported by despatch.²⁰

Sent to Peiping, Chungking. Peiping please repeat to Tokyo.

KRENTZ

893.515/1462 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, November 2, 1939—9 a. m.
[Received November 2—5:40 a. m.]

206. 1. This Consulate has just despatched to the local Japanese Consul General a letter reading as follows:

"I have the honor to acknowledge the receipt of your letter General No. 89 of October 30th, 1939 in which you request that this Consulate instruct the American firms, Standard Vacuum Oil Company, Zimmerman Company and the Robert Dollar Company, which are stated to have had transactions in old legal tender with the local British banks, to discontinue such transactions.

"In reply I have the honor to state that this Consulate is unable to comply with your request. This Consulate can in no way admit that the transactions of American citizens or companies in old legal tender are illegal and it takes this opportunity of stating that any interferences with American citizens or firms in respect to the currency with which they conduct their business in Tsingtao would be entirely unwarrantable and would be regarded an arbitrary infringement on American rights and interests."

²⁰ Not printed.

2. The British Consul General has received a similar letter dealing with British firms.

Repeated to Peiping and to Chungking; true reading by air mail to Tokyo.

[SOKOBIN]

611.939/210: Telegram

*The Secretary of State to the Counselor of Embassy in China
(Lockhart), at Peiping*

WASHINGTON, November 3, 1939—6 p. m.

245. Please send to Tokyo by air mail copies of Department's 11, October 26, 7 p. m., to Swatow (last substantive paragraph should be paraphrased), Swatow's 62, October 31, noon, and Shanghai's 959, October 31, 6 p. m., together with following comment duly paraphrased as from Department:

The Department is asking Peiping to send you copies of telegrams in regard to linen shipments from Swatow in order that you may have the information in regard to the heavy financial exactions made in connection with these shipments. The Department believes that this information may be of value to you for possible use at some opportune time in connection with your conversations with Japanese officials in regard to general and specific questions of Japanese interference with legitimate American trade in China.

Sent to Peiping.

HULL

893.61331/176: Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, November 13, 1939—11 a. m.

[Received November 13—10:52 a. m.]

212. 1. The Japanese special military mission here has just informed Universal Leaf Tobacco Company that the company will be permitted to purchase 1,600,000 pounds of leaf tobacco at two possibly three points along the railway under following conditions:

First, that company give complete cooperation to Chinese and Japanese authorities in North China;

Second, that company in purchasing will adhere to price limits set for grades established by Chinese and Japanese tobacco guilds;

Third, that so far as possible company will sell its tobacco in North China (presumably to Japanese factories);

Fourth, that exports from Tsingtao must be covered by exchange control or permission obtained to link exports with approved imports;

Fifth, that reports of purchases will be furnished and authorities permitted to inspect account;

Sixth, that expenses of inspectors required to check purchases will be paid by company;

Seventh, that Federal Reserve Bank currency will be used; there were no requirements for sales of foreign exchange;

Eighth, that the company will sign an agreement incorporating above terms, the agreement to expire end of August 1940. Japanese text of agreement will be authoritative.

2. Company is requesting its Shanghai manager to come to Tsingtao immediately to negotiate the several unsatisfactory stipulations.

3. Company in unrestricted period could reasonably expect to purchase at least 10,000,000 pounds of this year's crop.

4. As objectionable as stipulations are, with present concession, the company may be able to achieve nevertheless a satisfactory *modus operandi*.

Repeated to Peiping, Chungking, Shanghai. Abridged code text sent by cable to Tokyo with full true reading following by airmail to Tokyo.

SOKOBIN

893.61331/176 : Telegram

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

WASHINGTON, November 17, 1939—7 p. m.

359. Tsingtao's 212, November 13, 11 a. m., and your despatch 4170 of October 9,²¹ Universal Leaf Tobacco Company. The head office of the company in this country has informed the Department that the proposal outlined in Tsingtao's telegram under reference is contrary to its best business judgment and that it has cabled its Shanghai office "recommending that they do not agree because the proposal is not only unreasonable but in our opinion involves illegal restrictions".

In view of the flagrant nature of this instance of Japanese interference with American business in China, the Department desires that unless you perceive objection you make a further approach to the Foreign Office in regard to the case and that Tsingtao continue to press appropriate Japanese authorities at that port.

Sent to Tokyo via Shanghai. Repeated to Tsingtao.

WELLES

893.5151/677 : Telegram

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

CHUNGKING, November 18, 1939—9 a. m.

[Received November 18—8:50 a. m.]

599. Following is Embassy's translation of note from the Chinese Minister for Foreign Affairs dated November 15:

²¹ Latter not printed.

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that it has received a report to the effect that pursuant to an instruction of the bogus Reformed Government the bogus Superintendent of Customs at Shanghai addressed on November 4 a communication to the Commissioner of Customs of that port to strictly prohibit the transportation of legal tender notes. The communication also stated that foreign banks have not acted in accordance with new rules, and that in case legal tender notes are needed for legitimate trade approval should first be obtained from the customs authorities. The report added that it is learned that the bogus customs authorities have transmitted the information to the various foreign Consuls.

The Ministry observes that the Japanese have been doing all possible in attempting to intensify economic invasion and to monopolize the Far Eastern market. They have even instigated the bogus regime to announce the prohibition at Shanghai of the transportation of legal tender notes. It is in fact detrimental to the legitimate interests of the various powers in China. The Ministry, inditing this third person note for the Embassy's information, has the honor to request that the Embassy transmit instructions to American banks in Shanghai to reject the unreasonable request of the Japanese puppets. The courtesy of a reply is also requested. Seal, et cetera".

Repeated to Peiping and Shanghai.

PECK

611.939/218 : Telegram

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

WASHINGTON, November 27, 1939—5 p. m.

465. Reference Shanghai's despatches 2627, October 23, and 2637, October 27,²² in regard to unwarranted interference of the Japanese in the China egg trade. The Department desires that the Consulate General in Shanghai and the Embassy in Tokyo continue their efforts to obtain a removal of unwarranted interference by the Japanese with American participation in the China egg trade and that developments in regard thereto be reported to the Department by telegraph.²³

Sent to Shanghai. Repeated to Peiping. Peiping please repeat to Tokyo.

HULL

²² Latter not printed.

²³ In telegram No. 671, December 8, 6 p. m., the Ambassador in Japan reported that in reply to his representations the Japanese Foreign Office had stated that it had instructed Japanese officials at Shanghai to exert themselves for a prompt compromise settlement (611.939/233).

611.939/232 : Telegram

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

SHANGHAI, December 6, 1939—11 a. m.

[Received December 6—8:45 a. m.]

1079. My 1057, November 30, 6 p. m.²⁴ Outstanding cases of confiscation by Mitsui agents of particular shipments of eggs belonging to (American) Henningsen Produce Company have been respectively either settled or are in process of negotiation with good prospects of settlement.

On basis of a telegram received from London proposing that marketing be controlled by the issue of licenses to recognized packers, the representatives of the eggs conference met yesterday with Mitsui representatives for a discussion of current problems. Mitsui is evidently prepared to accept the return of the occidental companies into the buying field in the interior, but the Japanese representatives proposed that the eggs should still be consigned nominally to Mitsui for shipment to Shanghai, that a certain specified proportion of the eggs should be delivered to Mitsui on arrival, and that certain fees should be paid to Mitsui by the occidental packers in connection with delivery of cargo to the latter.

The occidental packers were not prepared to accept the Mitsui proposals, considering them too restrictive of their trade, and the Japanese representatives returned to consult with their organizations. Discussions are expected to continue.

True reading by air mail to Peiping and Tokyo.

LOCKHART

893.61331/187 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, December 7, 1939—2 p. m.

[Received December 7—9:47 a. m.]

221. Universal Leaf Tobacco Company will sign agreement tomorrow morning with the Japanese military mission covering rights of purchase of 1,600,000 pounds of leaf tobacco at five places on the railway, including Tsingtao, under conditions along the lines of those outlined in my telegram 212, November 13, 11 a. m., but with more liberal construction and concessions and with clause which will enable company to purchase beyond the instant allotment if the size of the crop permits.

Repeated to Peiping, Shanghai. Tokyo informed by telegram.

SOKOBIN

²⁴Not printed; this telegram was a preliminary reply to Department's telegram No. 465, November 27, 5 p. m., *supra*.

611.939/234: Telegram

The Consul at Swatow (Young) to the Secretary of State

SWATOW, December 9, 1939—noon.

[Received 1:57 p. m.]

66. Referring to Department's telegram No. 11, October 26, 7 p. m. to Swatow and my telegram No. 62, October 31, noon, regarding linen shipments. A third shipment has been made to Shanghai consisting of 1474 cases or 596 cubic tons valued at \$4,800,000 Chinese national currency. An assessment of \$500 per cubic ton was levied in addition to freight charges of \$83 per ton making the total amount paid to Mitsui Busan Kaisha \$347,000 all in Chinese national currency. As a condition to shipment exporters had to agree to sign a statement that they will pay \$500 per ton on cargo exported as long as the port of Swatow remains closed, that such "contributions" were voluntary and that freight and transportation rates are reasonable and not exorbitant.

Repeated to Peiping, Shanghai.

YOUNG

600.939/373

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

No. 2746

SHANGHAI, December 12, 1939.

[Received January 10, 1940.]

SIR: I have the honor to refer to my despatch No. 2736 of December 9, 1939²⁵ in regard to the monopolistic actions of Japanese interests regarding the China egg trade, and to enclose as of possible interest in this general connection a copy of a confidential police report dated November 22, 1939²⁵ on the subject of "Japanese Monopoly in Business Trade around Shanghai".

It will be noted that, according to the information contained in that report, the Japanese have acquired a virtual monopoly in trade as regards fish, livestock, eggs and cocoons; and that trade in matches, rice, wheat and vegetables is subjected to a semi-official Japanese control. Those monopolistic activities are naturally of primary significance for the consumption market in China, raising as they do the prices of commodities to levels which for the Chinese consumers are decidedly uneconomic, but they are not without their significance for international trade as well. The Japanese interference with American participation in the China egg trade has already been brought to the attention of the Department. It is of further interest to note (especially in view of the stubborn contention in some circles that Japan has thus far failed to derive any economic benefit from its mili-

²⁵ Not printed.

tary conquest of part of China), for example, that, "In addition to the quantity of rice already transported to Japanese ports or brought here (Shanghai) for eventual transportation to Japan," the Japanese authorities propose to authorize the shipment to Japan of an additional 400,000 bags of rice from Wusih, and the same amount from Sungkiang (Kiangsu); and that the Japanese are exercising an influence in the match market through their control, effected since the outbreak of war in Europe cut off former sources of supply, of raw materials used by Chinese match manufacturers.

In the view of the writer of the above-mentioned report, the introduction of the various monopolies into the several economic fields of occupied China is all part of a scheme "to bring all trades under the rigid control of an organization known as the Central China Liaison Office of the Asia Development Board, . . .²⁶ which is the supreme official organ for the 'development' of China."

Respectfully yours,

FRANK P. LOCKHART

811.51693/117: Telegram

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

WASHINGTON, December 14, 1939—6 p. m.

286. Reference Tsingtao's despatch no. 302, October 24, 1939,²⁷ in regard to an American bank for Tsingtao. It is not clear from this despatch whether the American Consul made any forthright attempt in his conversation with Mr. Evans to discourage cooperation with the Federal Reserve Bank on the part of any American bank which might be established at Tsingtao.

As the Embassy is aware, it is the current policy of this Government to discourage cooperation by American banks in China with the Federal Reserve Bank and to discourage any action which might be construed as giving support to the Federal Reserve currency and thereby militating against Chinese national currency.

Please communicate the foregoing to the Consul at Tsingtao and instruct that if he is again approached in this matter by American nationals who are either directly or indirectly interested therein he should be careful to assume an attitude along the lines indicated in the preceding paragraph.

Sent to Peiping. Repeated to Chungking.

HULL

²⁶ Omission indicated in the original.

²⁷ Not printed.

CONSIDERATION OF SANCTIONS AGAINST JAPANESE POLICIES OF
AGGRESSION AND VIOLATION OF TREATY RIGHTS; USE OF SO-
CALLED "MORAL EMBARGO"

894.24/593

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

[WASHINGTON,] January 7, 1939.

PROVENANCE OF MATERIALS USED BY JAPAN IN THE CONDUCT OF THE
CONFLICT IN CHINA

The Department has from time to time during the last few months received letters containing statements to the effect that 54 percent of the war materials used by Japan against China come from the United States. It is not known what the basis is for such a statement. To arrive at an approximation of the percentage of the war materials used by Japan against China which originate in the United States, it would be necessary (1) to define "war materials" and to determine the proportions of "war materials" used for military purposes and (2) to take into account (a) Japanese domestic production of "war materials" and imports of "war materials" other than those included in the selected list, (b) the amount of "war materials" used by Japan in the conflict which originate in or are imported into Manchuria as well as other Chinese territory under Japanese control, and (c) the amount used during the present conflict of those "war materials" which Japan has stored over a period of years prior to the outbreak of hostilities.

As of reference in connection with this subject there was published some months ago a survey by the Chinese Council for Economic Research (two Chinese students connected with the Brookings Institution) which stated the conclusion that 54.4 percent of Japanese imports of 13 selected articles essential for war purposes came from the United States in 1937. (The 13 articles referred to are (1) crude and heavy oil, (2) ores, including iron ore, zinc ore and others, (3) pig iron, (4) other iron including steel, scrap, ingots, slabs other than pig, sheets, pipes, tubes and others, (5) lead, (6) copper, (7) tin, (8) zinc, (9) aluminum, (10) mineral oils refined, (11) automobiles and parts thereof, (12) metal- and wood-working machinery and (13) internal combustion engines.) Although authoritative figures are not available for imports into Japan of the commodities enumerated during all of the period covered by the survey, it is thought that the estimate of the Chinese Council for Economic Research is substantially correct.

Reference may also be made to a speech made on June 8, 1938, in the Senate by Senator James P. Pope²⁸ on the subject of the sale of

²⁸ *Congressional Record*, vol. 83, pt. 8, p. 8485.

war materials by the United States to Japan. In this speech Senator Pope also made the statement that the United States furnished 54.4 percent of Japan's imports of "war materials". Although he made no reference to the survey of the Chinese Council for Economic Research he apparently used the same basis for his estimate, that is to say, while Senator Pope listed eleven instead of thirteen commodities in his list he lumped together items (1) crude and heavy oils and (10) mineral oils, refined, and items (12) metal- and wood-working machinery and (13) internal combustion engines under the respective headings of "All Oil" and "Machinery and Engines."

Neither of the two foregoing estimates necessarily bears any relationship to or affords a basis for calculating the percentage of war materials used by Japan against China which come from the United States. Those estimates are based on figures for imports into Japan of a list of commodities which omits many important commodities essential for military purposes; the estimates do not take into account Japan's domestic production of war materials, the amount of war materials used by Japan in the conflict which originate in or are imported into Manchuria and other Chinese territory under Japanese control, and the amount used during the present conflict of those war materials which Japan has stored over a period of years prior to the outbreak of the hostilities; and the estimates do not calculate the proportions of potential war materials which are actually used for military rather than peace time purposes.

There is attached a list²⁹ obtained from MID³⁰ of certain commodities essential for military purposes showing the extent of the shortage of Japan's domestic supply, the source of the foreign supply, her annual requirements, and domestic production of those commodities. Of the 29 commodities and groups of commodities listed the United States supplies 50 percent or more of Japan's requirements of only three: petroleum, iron and copper; it supplies practically none of Japan's requirements of rubber, vegetable fibers, oil seeds, wool, tin, and certain less important materials.

The Japanese Customs, apparently for military reasons, has not published since August 1937 figures concerning imports of articles of a military character, including the 13 articles referred to above, nor are any figures available in regard to the production in Japan of any of these articles since 1935.

The *Jiji Year Book* of 1938, however, gives figures for the year 1935 showing the amount imported, the amount exported, and the amount consumed in Japan during that year of certain of the 13 articles mentioned in the survey of the Chinese Council for Economic Research,

²⁹ Not printed.

³⁰ Military Intelligence Division, War Department.

from which there can be computed the amount in each instance produced in Japan:

	<i>Imports</i> (Metric tons)	<i>Exports</i> (Metric tons)	<i>Consumption</i> (Metric tons)
Copper.....	69,627	17,816	121,120
Lead.....	91,408	1,883	95,966
Tin.....	4,367	None	6,438
Zinc.....	45,843	None	80,034
Iron Pyrites.....	None	None	1,338
Sulphur.....	None	54,601	110,340

We thus find that domestic production in Japan of certain raw materials and semi-manufactured products essential for military purposes is very small, but that Japan appears to be entirely self-sufficient in regard to certain items such as sulphur, and produces a substantial share of its consumption of certain commodities such as copper.

Japan's extensive heavy industries undoubtedly constitute the main source of Japan's supply of commodities essential for military purposes which are finished manufactures. This is especially true of ordnance which is not included among the 13 items listed by the Chinese Council for Economic Research and which is of course a primary requisite for the conduct of hostilities. An idea may be had of the importance of the Japanese domestic industry as a factor in Japan's supply of war material by referring to the value of Japan's industrial output in the three classes of commodities which enter most largely into military requirements. This output for 1936, according to the *Jiji Year Book* for 1939, was as follows:

Metal Industry.....	Yen	2,130,719,000
Machinery Industry.....	"	1,609,253,000
Chemical Industry.....	"	2,202,362,000
Total.....	Yen	5,942,334,000

Subsequent to the outbreak of the hostilities the production of commodities under these three headings is known to have greatly expanded. These figures may be compared with Japan's total importation of all commodities from the United States which in 1936 and each subsequent year thereafter were as follows: (values given in yen)

<i>1936</i>	<i>1937</i>	<i>1938</i>
847,453,490	1,269,541,908	733,610,600
		(First ten mos.)

It will thus be seen that all imports into Japan from the United States in 1936 reached a valuation of only 14 percent of Japan's domestic output of the three classes of commodities mentioned above, and, in view of the reported subsequent heavy expansion of domestic industry, it is reasonable to suppose that this percentage was no higher in 1937 or 1938.

It thus seems probable that the percentage of war materials supplied by the United States of Japan's total supply is far less than 54 percent. When we consider the calculations involved in determining the proportion of potential "war materials" actually used for military purposes, the amount of "war materials" which originate in Japan or originate in or are imported into Manchuria as well as other Chinese territory under Japanese control, and the amount used during the present conflict of those materials which Japan is believed to have stored over a period of years prior to the outbreak of the hostilities, the virtual impossibility becomes obvious of attempting to arrive at any precise estimate of the proportionate extent to which the United States constitutes Japan's source of supply of the materials used by Japan in its conflict with China.

793.94/14671

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

No. 3591

Tokyo, January 7, 1939.

[Received February 6.]

SIR: I have the honor to enclose for the strictly confidential information of the Department a copy of a secret memorandum²¹ made available to me by the British Ambassador and entitled "Possibilities of Economic Counter Measures."

In sending the memorandum to me, Sir Robert Craigie wrote:

"In my view we have now reached a point at which it is no longer merely a question of protecting this or that vested or trade interest in China but of preventing, while there is yet time, the formation in East Asia of a political and economic entity which may have serious repercussions on the destiny of every Pacific Power. The ambitions of the elements which today are dominant in Japan will be limited by the degree of resistance which they encounter—and by nothing else.

The memorandum examines Japan's international trade position and points out that her exports to the United States, the British Empire, and France comprise approximately 70 per cent of her total exports to those countries where foreign exchange necessary for the purchase of essential raw materials can be earned. From such figures that are available, it would appear that Japan will not have on hand sufficient gold to make up its unfavorable trade balance in 1939. The conclusion is reached that if an embargo were placed on Japan's exports to the United States, British Empire, and France, "the effect would set in motion a process which must rapidly prove disastrous for Japan's economy." Refusal by the three nations above-mentioned to

²¹ Not printed.

purchase gold from Japan is suggested as a first step if "arrangements could be made to prevent Japanese gold reaching those countries through third parties."

We are now studying this memorandum, and I hope to be in a position in due course to submit comment thereon. However, I wish to make it clear, in forwarding this paper, that I have not modified the view which I have expressed on several occasions—that I do not favor the taking by the United States of any measure partaking of the nature of economic sanctions against Japan unless the United States is prepared to resort to the ultimate measures of force.

Virtually all of my colleagues who have discussed with me the possible effects of imposition on Japan of economic sanctions by the United States and Great Britain are of the opinion that, if markets in American and British areas for the important products of Japan were closed to that country and if, at the same time, the primary materials available in such areas were denied to Japan, the effects on her economy would be catastrophic, and that Japan would prefer to modify her position vis-à-vis foreign interests in China rather than to face the consequences of such sanctions. The fact that 65 percent of Japan's trade with countries outside the yen bloc is represented by her trade with the United States and British Empire areas is impressive. However, it is from that point on that opinions cannot be conclusive.

My British, Belgian, Netherlands and other colleagues to whom I refer are confident that Japan could not face the loss, which these colleagues contend would have such far-reaching consequences to Japan, of the raw materials and of the markets which together represent the above-mentioned figure of 65 per cent. The arguments on the other side, which they discount, are largely—but not entirely—psychological. Japan has staked her entire future on the success of the China venture. Her defeat, not necessarily at the hands of the Chinese forces, but through the operation of factors which consume Japan's resources, would eventually bring about in successive stages her retreat from the whole of China and perhaps even from the continent of Asia. This process of contraction, ending with the throwing back of Japan into her legal territorial confines, would result certainly in her relapse into the status of a minor power and probably in social and political upheavals of a revolutionary character. The question presented, when reduced to its elements, is this: Is Japan likely to make any concession to the United States and Great Britain which would prejudice the success of her China policy in order that her present standard of living might be maintained? An affirmative answer to that question would entail writing off the capacity of the Japanese people to discipline themselves and to make sacrifices and laying emphasis on the

supposed attachment of these people to a standard of living higher than that which their indigenous mode of living requires. And it must be remembered, in connection with the question of the effect on the standard of living of the loss of Japan's trade with the United States and Great Britain, that the remainder of her trade with countries outside the yen bloc, added to her trade with North and Central China and Manchuria, amounted in 1938 to a figure in yen equal to her total average foreign trade for the five years 1916 to 1920.

I cannot imagine that any intelligent Japanese contemplates with equanimity the prospect of economic sanctions by the United States and Great Britain. We have had instances where protests on the part of the American and British Governments have caused the correction by the Japanese of conditions in China which they themselves had created; but these conditions, such as the Menchiang oil monopoly and the embargo on the export of hides and skins, were not only illegal but of relatively small importance, and the concessions which the Japanese made could not have affected in either direction the ultimate outcome of the conflict. I am, therefore, of the opinion that if economic sanctions were in definite prospect there might be an even greater disposition on the part of the Japanese military authorities in China, who seem to have so much say in these matters, to correct conditions which also would not influence the course of events. If, however, the objectives which would be sought by the laying down of sanctions were not to be confined to the correcting of conditions of relatively small importance, or even to the removing of all the restrictions on the right to trade, but were to include a substantial restoration of the *status quo ante*, an optimistic prediction would be permissible only if one could posit the ultimate authority in Japan lying with the "big business" elements.

Many of my colleagues are disposed to attach a significance which I consider extravagant to the complaints privately and secretly expressed to them by enlightened Japanese businessmen. The members of this group, along with others who are well-to-do, are being hard pressed. They are required to continue to pay the wages of those of their employes who are with the colors, 30 per cent of the annual bonus of corporation executives—usually many times greater than their nominal salaries—are required to be paid in non-transferable war bonds, and taxes are being increased; so that, along with growing international complications, the discontent and pessimism of this element are natural and understandable. The progress toward national socialism, however, has taken too definite form to warrant the assumption that the interests or the desires of the capitalist class, which forms a small part of the population, would constitute a controlling consideration in the event of an extreme economic emergency. It has

previously been pointed out that a total cessation of trade with the United States and the British Empire would bring Japan's trade down to the average annual figure of total foreign trade during the period from 1916 to 1920. It would seem a bold assertion to contend that the adjustments which Japan would have to make to conform to the conditions prevailing twenty years ago would be so great that she would prefer to prejudice, if not abandon, her adventure in China.*

I have presented these thoughts somewhat provisionally. The subject herein treated is receiving our continuous and careful attention, and, although the existence of intangible and unknown factors presents difficulties, I hope that I shall be in a position before long to submit to the Department my considered views on this important subject. Yet even in this provisional presentation I feel that certain psychological factors deserve a place, namely, that the Japanese are a hardy race, inured to personal and national sacrifice; that they have been accustomed throughout their history to meeting catastrophe and disaster; that in them the "do or die" spirit is more deeply ingrained than in almost any other people; that every one of their foreign wars has been a gamble as is the present one and that their spirit is to see the gamble through whatever the results, if only because the loss of face involved in defeat (other and more important consequences of defeat have also to be considered), a factor the potency of which can only be fully appreciated by those who have lived long in the Orient, would outweigh the logical calculations expected among western nations. For Japan to admit defeat in the present hostilities after pouring out so much blood and treasure in China, even though that defeat were brought about by the economic sanctions of third parties, and to return even approximately to the *status quo ante*, is an hypothesis which we in this Embassy find it very difficult to entertain. To support if not to prove this thesis by quoting figures and statistics is simple enough, and it is on the basis of figures and statistics that my colleagues rest their opinions concerning the effectiveness of economic sanctions. I should add parenthetically that these colleagues had been confidently predicting for the past two years that the economic collapse of Japan was about to occur. I do not think that they give adequate weight to the psychological factors herein set forth, and these factors, in my opinion, should be given the fullest consideration before we allow ourselves to reach conclusions.

Respectfully yours,

JOSEPH C. GREW

* The effects on Japan's capacity to carry on hostilities of being deprived of certain raw materials have not been examined for the reason that, as Japan's stocks of most of these materials are unknown, any conclusions which might be reached would have to be conjectural. [Footnote in the original.]

893.60 Manchuria/15

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 13, 1939.

At Mr. Lamont's³² request, I had a conversation with Mr. Lamont last evening at the Union Station, Washington, D. C. (See separate memorandum of conversation, of same date, on the subject of China consortium.³³) One of the subjects which Mr. Lamont wished to discuss was that of a project with regard to which he had been informed for purchase by Japan from the United States Steel Company through the Guaranty Trust Company of \$11,000,000 worth of steel for construction in "Manchukuo".

Mr. Lamont said that he had been asked for his opinion with regard to this project. The Japanese were asking for steel to the value of \$11,000,000, were ready to pay part cash and wanted part credit. He made the observation that the directors of a company have certain obligations to their stockholders and cannot lightly turn down an opportunity to do a profitable business. He said that the people who had consulted him were of the opinion that if they did not accept the business it would go to and be accepted by British and/or German and/or some other country's producers. There was, he said, no law prohibiting such business; and, the American Government has not found that Japan is engaged in war. He, Mr. Lamont, had not felt that he could advise against the American interests concerned taking the business. He asked for my opinion.

I replied that I could give nothing but my own personal opinion—plus my personal estimate of the situation and some of its trends. I then mentioned the general attitude of the American people; the increasing demand that something be done toward putting a stop to what is called this country's "assistance to Japan" through the supplying of materials which contribute to Japan's military operations; the action which the Administration has taken in regard to export of airplanes;³⁴ the outcry against export of scrap iron; etc. I made reference to the inquiries made by the Nye Committee sometime ago and the agitation which had led to the passage of the Neutrality Act;³⁵ and to the decision which the du Pont Company had made that it would sell munitions neither to the Japanese nor to the Chinese. I said that to my knowledge there had been some discussion of possible persuasive action calling upon the people of the United States to

³² Thomas W. Lamont, of J. P. Morgan and Company, New York.

³³ *Post*, p. 721.

³⁴ See circular letter of July 1, 1938, *Foreign Relations*, Japan, 1931-1941, vol. II, p. 201; cf. *Foreign Relations*, 1938, vol. III, pp. 613 ff.

³⁵ Approved August 31, 1935, and amended February 29, 1936, and May 1, 1937; 49 Stat. 1081, 1152, and 50 Stat. 121.

refrain from making loans or giving credits to countries engaged in hostilities, or at least to one side. I mentioned the opinion held by some people that, unless American interests voluntarily curtail certain types of business with countries engaged in certain types of activities, there may come legislation prohibiting such business. Mr. Lamont said that he of course had most of those points in mind but that he felt that unless and until there was legislation on such subjects American interests engaged in legitimate business, when offered opportunities for trade—which, in turn, would make employment, etc., etc.,—should go ahead with business on a business basis.

I made the observation that all such matters need to be considered on the one hand in the light both of moral and of material considerations and on the other hand in the light both of short swing and long swing considerations. Mr. Lamont said that he quite agreed, but he indicated that he was not moved from the view that he could not advise the interests concerned in this project against accepting the business offered.³⁶

STANLEY K. HORNBECK

798.94/14694

Mr. John Carter Vincent of the Division of Far Eastern Affairs to the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] January 20, 1939.

DEAR DR. HORNBECK: [Here follows discussion of the use of economic measures to support foreign policy.]

Mild measures of economic pressure to be applied to Japan have been frequently discussed and readily occur to mind: abrogation of the 1911 Commercial Treaty,³⁷ denial of financial assistance to Japan, modification of Section 338 of the Tariff Act of 1930³⁸ to allow for restrictions upon Japanese imports into this country because of discriminations against us set up by Japan in Manchuria and China, curtailment of shipment of certain war materials to Japan, et cetera.

The question naturally arises: Can these—would these—measures get Japan out of China? The answer is no. It is believed that nothing short of defeat in war would, within the foreseeable future, “get Japan out of China”. But the objective of the measures contemplated is not to “get Japan out of China”, as desirable an accomplishment as that would be. The objective is to prevent Japan from consolidating her position in China and drawing sufficient strength

³⁶ On January 20 Mr. Lamont said the project had been sidetracked for the time being but might come up at a later date.

³⁷ *Foreign Relations*, 1911, p. 315.

³⁸ Approved June 17, 1930; 46 Stat. 590, 704.

therefrom to allow for further aggressive action in other fields which would seriously menace our interests and probably lead us to war.

Also to be considered in connection with the measures contemplated and their objective is the very great importance of there being kept in existence an independent Chinese Government and an independent Chinese domain,³⁹ independent of Soviet Russia as well as of Japan, which would furnish the support and stimulus to continued Chinese resistance and serve to make insecure Japan's position in the portions of China under its control, and which would prove distinctly troublesome to Japan should she become involved elsewhere. Financial assistance to the Chinese Government, in the form of rehabilitation loans, material credits, et cetera, would contribute substantially toward that end.

The employment of economic pressure raises of course the question of Japanese retaliation. The field of Japanese commercial retaliation is admittedly limited. Japan is now purchasing from this country only those commodities which are necessary to her and it is unlikely that she will stop making those purchases, unless prevented from doing so by us or by financial inability. In so far as action directed against American trade and interests in China is concerned, that trade and those interests are now receiving scant consideration and may be expected to receive less and less consideration, irrespective of action taken by us, as Japan becomes surer of her position in China. With regard to the fear that Japan might risk war with us—might attack the Philippines—in retaliation for economic measures taken against her, I find little in the situation to support such a fear. If Japan could find in the Philippines the means to counteract the losses occasioned by economic pressures; if the Japanese military were not fairly well occupied in China; if Japan did not have a potentially hostile Russia north of Manchuria—then a fear of war might be warrantably entertained, but it seems to me that, the situation being what it is, the very slight chance of involvement with Japan is one which we could and should take in order to attain the objectives outlined; that is, prevention of the development of a situation in which the chances of our becoming involved with Japan “would be measurably greater than would be the chances of our becoming involved in the present conflict were we now to render reasonable assistance to China”* and adopt measures to decelerate the Japanese aggressive movement.

³⁹ Mr. Hornbeck, in a marginal comment at this point, stated: “This has been the American view for 100 years—at all times. SKH.” Mr. Vincent's memorandum was submitted by Mr. Hornbeck to the Secretary and the Under Secretary of State.

* My memorandum of July 23, 1938, addressed to you. [Footnote in the original; for memorandum, see *Foreign Relations*, 1938, vol. III, p. 234.]

I believe that, in adopting the non-military economic measures envisaged, limited in scope and character to conform to our desire to avoid involvement in the conflict in China, we would, without danger and with small relative cost to ourselves now, be furthering objectives dictated by an enlightened national self-interest.

611.946/421

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Ballantine) of a Conversation With the Counselor of the Japanese Embassy (Suma)

[WASHINGTON,] January 23, 1939.

Mr. Suma took the occasion of a call at his request to discuss other matters to say that he would like to ask Mr. Ballantine very privately whether he had any information in regard to developments in connection with proposals for imposition in this country of embargoes and boycotts upon articles of trade with Japan. Mr. Ballantine said that he knew nothing in regard to the matter other than what was reported in the press, which he assumed that Mr. Suma had already seen, in regard to the organization of private groups advocating such action. Mr. Suma said that he was familiar with all that had appeared in the press on the matter and that the Embassy was following the *Congressional Record* carefully, but he wondered whether this question had been brought before the Department.

Mr. Ballantine replied that, as Mr. Suma knew, these were matters which came within the province of the legislative branch of the Government. Mr. Suma said he understood this, but he observed that the Japanese Diet was now in session and that various interpellations were being made by members of that body to the ministers of state on matters affecting Japan's international relations. Mr. Ballantine remarked that in a legislative body various types of proposals were brought up for consideration but that did not mean that all of them were acted upon. Mr. Ballantine made it clear, however, that he could not undertake to gauge what the prospects were for Congressional action in this matter.

894.51/609 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 23, 1939—9 a. m.

[Received 5 : 20 p. m.]

46. Arthur N. Young⁴⁰ has supplied me with a digest of an analysis of Japan's financial position issued here on January 13 by "Reuter's

⁴⁰ American adviser to the Chinese Ministry of Finance.

X-ray", a confidential business news service. Young understands that this analysis, digest of which will be quoted in my 47, January 23, 10 a. m.,⁴¹ was prepared by a competent authority. The object of the study is to determine how sensitive Japanese finances are likely to be to possible economic retaliation on account of difference of third party interests in China.

In conversation with me Young made the comment that the most effective retaliatory action would probably be restriction of Japanese exports to western countries because this would reduce Japan's total capacity to buy imported supplies whereas restriction of exports to Japan of military supplies which press reports is advocated by a committee represented by Mr. Stimson⁴² and by others while it would be useful would be effective only to the extent that such supplies could not conveniently be procured elsewhere, moreover former measure could be supported as directed toward economic discrimination against the interests of Western Powers and would consequently have less of a political character than so-called sanctions.

Repeated to Peiping, Peiping please repeat to Tokyo.

PECK

894.00/839 : Telegram

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

TOKYO, January 24, 1939—7 p. m.

[Received January 24—11 a. m.]

44. 1. Interpellations in the Lower House on the annual addresses of the principal members of the Cabinet were concluded yesterday. Interest naturally was centered largely in the conflict with China and in the relations with foreign countries rising out of the situation in China. The House today took up the budget, and discussion of foreign policies will be continued in committee. Interpellations began yesterday in the House of Peers.

2. The most conspicuous feature of the discussions thus far on foreign policies has been the strong note of dissatisfaction over the expressed desire of the Minister of Foreign Affairs⁴³ to reach settlement with the American and British Governments on the question of the Open Door. On January 21st Arita was asked to explain the position of the Government with regard to (a) establishing relations with China on the basis of the "good neighbor principle"; and (b) economic relations with China. He stated with regard to the first point that Chinese animosity against Japan could be eradicated only

⁴¹ Not printed.

⁴² Henry L. Stimson, Secretary of State, 1929-33.

⁴³ Hachiro Arita.

if Japan harmonized its actions with its words. He denied that Japan proposed to establish a paramount position: The relationship desired was that existing between equals. He believed that if that relationship could be realized the Chinese would cooperate. He declined to indicate the form which a new Chinese Government should take, as that was a matter for the Chinese themselves to determine, but he felt confident that a strong Government would be established. The Japanese Government has not been in touch with Wang Ching Wei⁴⁴ but he believed that Wang's announcements urging need for peace with Japan have created a profound impression not only in China but in the occident as well. With regard to the second point, he regrets the use of the word "bloc" in connection with the proposed economic association among Japan, China and Manchukuo, but that association has necessarily to be a close one. Such an association, which would take into account national defense needs and economic self-sufficiency, does not conform with existing concepts of the Open Door and consequently the American and British Governments have protested.⁴⁵ It was the opinion of the Japanese Government that discussion by exchange of notes should be avoided and he had therefore explained Japan's needs and desires to the Ambassadors concerned but without success. He had emphasized that the various incidents which had arisen were due to military necessity and that with the subsidence of military operations the situations complained of would largely be remedied but the United States and Great Britain point out discrepancies between Japanese assurances and facts and continue to believe that Japan intends to drive the interests of third countries out of China. In his opinion, however, the American and British offers to discuss modification of treaties indicate some appreciation of the existence of a new condition in the Far East.

3. This statement was harshly criticised in subsequent sessions as being too conciliatory. Members stated that the surrender of Japan's paramount position gained by heavy expenditure of lives and money was unthinkable; that Japan's honor would not allow Arita either to avoid the establishment of an economic bloc with China or to beguile the United States and Great Britain with assurances that a bloc would not be formed; and that "Shidehara⁴⁶ diplomacy was liquidated with the Manchuria incident and its reappearance will not be tolerated".

4. In the course of these debates repeated reference was made to reported American and British plans to impose economic sanctions.

⁴⁴ Recently Deputy Leader of the Kuomintang (Nationalist Party) at Chungking.

⁴⁵ For the American note of December 30, 1938, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

⁴⁶ Baron Kijuro Shidehara, Japanese Minister for Foreign Affairs, 1929-31.

The sentiments expressed by members were those of defiance and confidence. The Prime Minister⁴⁷ yesterday said in this connection: "I was asked whether Japan would submit if economic sanctions were applied by third countries. There is a plan for coping with any economic blockade set up by third countries. Naturally it is hoped that such a situation will not arise but if it should arise some means for dealing with it resolutely will be devised."

Cipher text to Peiping for repetition to Chungking.

GREW

694.1115/10

Memorandum of Conversation, by the Assistant Chief of the Division of Far Eastern Affairs (Ballantine)

[WASHINGTON,] January 24, 1939.

Mr. Powell of the Mesta Machine Company, Pittsburgh, Pennsylvania, stated that his firm did considerable business with Japan and "Manchukuo" in steel works equipment and that the firm was encountering stiff competition from German manufacturers as a consequence of the barter agreement for the exchange of soya beans in return for German products and as a result of the German Government's assistance in other ways to German exporters. He felt that his firm could still compete because of the higher quality of the American products over the German if only our Government would support American business in the way that the German Government did. He expressed dissent with what he considered to be our policy of "antagonizing Japan", as he believed that we should accept the fact that Japan was going to dominate the Far East. Mr. Powell said that he had not come to debate the wisdom of our policy, but that he should like information in regard to it which would be of assistance to him in shaping the company's plans. He asked specifically about our attitude toward the recognition of "Manchukuo", toward embargoes, and toward loans by the Reconstruction Finance Corporation to Japanese interests. He referred to the recent \$25,000,000 credit extended to China by the Export-Import Bank⁴⁸ and he asked what our attitude would be if a similar loan were to be requested by Japanese interests.

Mr. Ballantine denied that it was this Government's policy to antagonize Japan. He said he knew of no action which this Government had taken in restricting shipments to Japan other than in connection with the voluntary restrictions by American manufacturers of airplane equipment, to which Mr. Powell had referred, and he said that the question of embargoes was, of course, a matter for Congress

⁴⁷ Baron Kiichiro Hiranuma.

⁴⁸ See *Foreign Relations*, 1938, vol. III, pp. 519 ff.

to determine. Mr. Ballantine said that our Government had not recognized "Manchukuo" and he briefly indicated our position on this matter. With regard to the question of loans by the Reconstruction Finance Corporation to Japanese interests, Mr. Ballantine said that he did not know that any proposal for such a loan had been made to the RFC⁴⁹ and that, in any case, he could not undertake to speak for the RFC. Mr. Powell said that if credits by the Reconstruction Finance Corporation were extended to the Manchuria Heavy Industries Company, it would, of course, enable that company to place large orders with American firms and he would like to have Mr. Ballantine's personal reaction as to what the attitude of this Government would be toward such a loan. Mr. Ballantine said again that he could not speak for the Reconstruction Finance Corporation, but he thought that if Mr. Powell would study our note to Japan of October 6, 1938, the Japanese Government's reply of November 18, and our rejoinder of December 31 [30],⁵⁰ all of which have been published in the press, he would obtain an idea of the issues between the United States and Japan which would enable him to form his own estimate as to whether a proposal for such a loan, if made, would be affirmatively acted upon.

893.515/1347

*Memorandum by the Adviser on Political Relations (Hornbeck)*⁵¹

[WASHINGTON,] January 25, 1939.

I would call most thoughtful attention to the statements of Mr. Grew and Mr. Williams⁵² quoted on the first page of the digest hereunder.⁵³

Mr. Grew states that he does not believe that anything short of force can lead to substantial moderation of Japanese policy in China and that he therefore cannot conscientiously recommend to his Government recourse to economic sanctions. Mr. Williams states to the Ambassador that it is his (Williams') opinion that only measures envisaging extremely drastic steps backed by the determination to resort to military and naval force, if necessary, will cause Japan to deviate from her determination to exercise full and complete economic control of China.

Thus, both of these first-hand observers are in agreement that, to restrain Japan, force must enter the picture. I concur in that view. Mr. Grew, however, believing that nothing short of force can restrain

⁴⁹ Reconstruction Finance Corporation.

⁵⁰ *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 785, 797, and 820.

⁵¹ Addressed to the Secretary and the Under Secretary of State.

⁵² Frank S. Williams, Commercial Attaché in Japan.

⁵³ Digest not printed; for statements, see Ambassador Grew's letter of December 7, 1938, and Mr. Williams' memorandum of December 6, *Foreign Relations, 1938*, vol. IV, pp. 99 and 100.

Japan, feels that he cannot recommend economic sanctions; whereas Mr. Williams envisages "extremely drastic steps backed by the determination to resort to military and naval force, if necessary". It is my view that resort to economic sanctions while declaring to the world that this country will not support and supplement such sanctions with armed force, would prove ineffective, harmful to American interests, stultifying and even dangerous, but that embarkation upon a well planned and comprehensive program of economic sanctions with an announcement or clear indication that we would be prepared, should there be need, to support and supplement those sanctions with armed force would be very likely to prove effective without its becoming necessary at any stage actually to resort to use of armed force.

I therefore favor proceeding upon a course contemplating and involving a program the opening numbers of which would be application of economic sanctions with clear indication from the outset that, if it should be necessary to carry out the whole program, the final numbers would probably be use of armed force.⁵⁴

STANLEY K. HORNBECK

793.94/14785

The British Embassy to the Department of State^{54a}

AIDE-MÉMOIRE

On instructions from his Government the First Secretary of the United States Embassy in London enquired on November 3rd⁵⁵ what further measures His Majesty's Government might think suitable in the event of the Japanese Government replying unfavourably to the parallel approach which it was proposed to make in the matter of the navigation of the Yangtze.

2. His Majesty's Government thereupon undertook a detailed study of the whole question of the feasibility of instituting measures of retaliation against Japan, a matter to which they had already given much thought during the preceding twelve months, without however finding it possible to devise any measures on the part of the United Kingdom which could be relied upon with any real certainty to achieve the objects desired within a reasonable period of time.

3. Their earlier examination of this subject in November 1937 had led them to conclude (a) that Japan would be able to continue military operations for some months without further importation of essential war supplies except possibly certain merchandised transport and

⁵⁴ The Under Secretary of State noted this comment on the memorandum: "I should like to discuss this at some length. S. W."

^{54a} Handed to the Under Secretary of State by Mr. Mallet, British Chargé, January 25.

⁵⁵ See telegram No. 1280, November 3, 1938, 4 p. m., from the Ambassador in the United Kingdom, *Foreign Relations*, 1938, vol. iv, p. 197.

aviation spirit; (b) that an embargo by the British Empire and the United States of America on selected commodities required by Japan would cause her serious difficulty, but that in the absence of a world-wide scheme of international retaliation Japan could not without a state of war between her and the retaliating countries be prevented from acquiring supplies from alternative sources in non-retaliating countries and by means of entrepôt trade through these two countries: (c) that an embargo by the British Empire and the United States on all Japan's export trade would be highly embarrassing for her and might in the long run prove decisive owing to her inability to pay for imports; but that no decisive effect could be expected for a considerable period: (d) that a refusal by the British Empire and the United States of bunker facilities and of use of their ports to Japanese shipping would increase economic pressure on Japan although it would not prevent the conveyance of goods to and from Japan: that Japan would however probably regard action directed against her shipping as especially provocative and might well retaliate against United States and British shipping in the Far East: (e) that the cooperation of other countries with the United States and the British Empire would intensify to varying extents all the different forms of pressure: but that as regards Japanese imports, the participation of any number of countries conceivable in present circumstances could not entirely prevent Japan from acquiring necessary supplies of raw materials. Their participation would, however, increase the temporary dislocation of Japan's trade and force her to pay higher prices for her supplies: and the effect on Japanese exports would be more pronounced if the Netherlands, France, Egypt, Belgium, the U.S.S.R. and the Argentine cooperated: (f) that as regards the counter effect on those, by far the largest part of the loss of trade would fall on certain overseas countries, notably India and Australia: (g) that the adoption of measures sufficiently drastic to have any prospect of achieving the results desired would involve the risk of grave counter-measures by Japan and may lead to war. The foregoing conclusions related particularly to the imposition of formal sanctions as a political weapon for the arrest of Japan's aggression in China. They would apply, however, with approximately equal force to economic reprisals designed as a measure of defence against injury by Japan to specific interests in China.

4. The reconsideration which His Majesty's Government in the United Kingdom have given to this subject since the United States' inquiry in November has confirmed their view that the above conclusions were well founded and still hold, although, of course, the deterioration in the economic position of Japan since November 1937 has shortened the period in which an embargo on Japan's export trade might now be expected to have a decisive effect.

5. Indeed, His Majesty's Government in the United Kingdom are advised by His Majesty's Ambassador at Tokyo that the placing of an embargo on imports from Japan by the British Empire and the United States would in present circumstances have an immediate and disastrous effect on her whole economy⁵⁶ and that the present moment is particularly favourable for action, when the Japanese army are so deeply involved in China and when the prospect of future economic and financial difficulties is beginning at last to be present to the minds of competent Japanese leaders.

It may be added that British business firms in China, who would undoubtedly be the first victims of Japanese counter measures, are of the opinion (in which His Majesty's Ambassador in China entirely concurred) that retaliation in some form (e. g. denunciation of the Anglo-Japanese Commercial Treaty⁵⁷) is the only effective method of countering Japanese designs.

6. Denunciation of the Anglo-Japanese Commercial Treaty would not enable immediate action to be taken owing to the period of notice required. In the meantime the restrictions which might be placed on Japanese imports into British Colonies or into, say, the Philippines could not be made effective, while reprisals not involving the infringement of Commercial Treaties would necessarily be very limited in scope.

But the giving of such notice would in any event be a very serious warning to Japan, and His Majesty's Government in the United Kingdom will be glad to know whether the United States Government consider that denunciation or the threat of denunciation in itself would produce a deterrent effect.

7. If, as is only too likely during the period of notice fresh action were taken by Japan to infringe the treaty rights of His Majesty's Government or of the United States Government, it would be a matter for consideration whether in view of Japanese action we could take retaliatory measures before the stipulated notice had expired.

Whether notice of denunciation had been given or not, it may be possible to argue that the material damage to United States and British interests resulting from Japan's disregard of her obligations under the treaties to which we are all three parties has been such that Japan has no right to complain if we act in a manner incompatible with other treaty obligations between Japan and ourselves or if, as a measure of retaliation or as a means of obtaining redress and reparation, we take action against her which would otherwise be

⁵⁶ In telegram No. 45, January 26, noon, the Ambassador in Japan reported that the British Ambassador had informed him that his report to his Government should not read "immediate and disastrous effect" but rather that such measures "would set in motion" ultimately disastrous effects (893.515/1350).

⁵⁷ Signed at London, April 3, 1911; *British and Foreign State Papers*, vol. civ, p. 159.

illegal, so long at any rate as the retaliatory action is in proportion to the wrong and, as near as may be, similar in kind. If such action were legitimate it would obviate the need to await the expiration of the notice of denunciation before putting into effect any retaliatory measures, at least of proportionate extent and approximately similar in kind, which may have been decided on.

8. His Majesty's Government in the United Kingdom will welcome the views of the United States Government on this point, and any indication they see fit to furnish as to the conclusions to which their own consideration of the whole matter has so far led them. If the United States Government has found it possible to formulate any definite proposals, His Majesty's Government in the United Kingdom will, of course, be happy to examine them with a view to possible parallel action. Any proposals, however, would have to be referred by His Majesty's Government in the United Kingdom to the Dominions and to the Government of India and the Government of Burma on whom, as stated above, by far the greatest part of the loss of trade would fall. The United Kingdom Government might also have to introduce special legislation if effective measures of retaliation were to be instituted against Japan. Should it be found possible to reach agreement on these points it would be necessary for all the governments concerned to consider what Japanese counter-measures, economic or military, e. g. against shipping or other interests accessible to Japanese action were to be apprehended and what contributions to the common defence each of the governments concerned would be prepared to guarantee.

9. A policy of retaliation cannot be embarked upon without a clear realisation as to what it will lead to if pursued to the end—and the objections to embarking on such a policy and then being forced to retract are self-evident. Whatever may be the initial step in a policy of retaliation the real problem is the political dilemma that non-retaliation may involve failure to protect treaty rights and the legitimate interests of British and American nationals against discrimination and the danger of eventual elimination by Japanese aggressions, while retaliation involves the danger of counter-measures and of war.

His Majesty's Government in the United Kingdom have hitherto been disposed to think that in the present state of Europe the right policy for the present is not to embark on retaliation.

But His Majesty's Government in the United Kingdom have not reached any final conclusion and it would greatly assist them to do so if the United States Government could inform them of any conclusions at which they themselves have arrived.

WASHINGTON, January 25, 1939.

893.51 Manchuria/100

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] January 27, 1939.

Mr. Henry Breck of J. & W. Seligman and Company, New York, called by appointment made by long-distance telephone from New York. He said that a short time ago his firm had been approached by a German bearing a letter from Mr. Aikawa with a proposition that J. & W. Seligman and Company undertake the placing of a credit in this country to the Manchurian Industrial Development Corporation covering the purchase of steel rails, steel, and copper. Mr. Breck said that he had gained the impression that these commodities were to be used in rehabilitating certain sections of the South Manchuria Railway. He said also that the commodities mentioned were not arms and munitions of war. He said that the proposition as advanced envisaged the putting up by the Manchurian Industrial Development Corporation of \$30,000,000 in Japanese-dollar bonds plus \$5,000,000 in gold, on the basis of which collateral a credit of \$20,000,000 would be extended for two years, to be repaid in installments after that time.

Mr. Breck said that he doubted whether as a practical matter this credit could be placed with American financial institutions but that before continuing with consideration of the matter his firm wished to know the attitude of the Department of State in the premises.

I said that I had been very much interested in his statement expressing doubt whether American financial institutions would be likely to agree to extending any such credit and that in view of Japan's general credit position I personally would have been surprised to hear that American financial institutions would be interested in extending any such credit. I referred to the fact that some months ago the Department of Commerce had issued a circular advising Americans to do business with Japan only on the basis of irrevocable letters of credit. I said that exchange control in Japan and the difficulty of getting funds out of Japan were responsible for the issuance by the Department of Commerce of the circular in question. I said that much the same situation in reference to exchange control existed in Manchuria. I said that in the light of the fact that Japan's military activities were resulting in serious injury to American rights and interests—which fact I was sure Mr. Breck was apprised of from the communications exchanged between this Government and the Government of Japan since last October—, it had been our hope that American financial institutions would, on their own initiative and taking into account the credit risk involved, not take any action which would facilitate, either directly or indirectly, Japan's activities. Mr. Breck then inquired whether our attitude would be the same toward the ex-

tension by an American seller, such as the United States Steel Corporation, of a credit along the lines under discussion. I replied that our hope that American concerns would decide voluntarily not to take action in the credit field applied not only to American financial institutions but to American sellers of commodities. He then asked what our attitude would be toward a cash sale of commodities to Japan. I told him that we would have nothing to say on that subject.

Mr. Breck said that in the light of what I had said to him, as recorded above, he was sure that his firm would have nothing to do with the proposed credit transaction. He said also that in making known its decision to the representative of the Manchurian Industrial Development Corporation, no mention would be made of the Department of State.

M[AXWELL] M. H[AMILTON]

894.51/611a: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Kennedy)*

WASHINGTON, January 30, 1939—5 p. m.

77. Please endeavor, through discreet inquiry, to ascertain (a) whether British banks or firms are now extending credits, short term or otherwise, to Japanese interests, (b) the method employed to "peg" the yen to the pound sterling and (c) if the method employed is the maintenance of gold or other deposits in British banks, whether credits are extended thereon.

HULL

793.94/14653: Telegram

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

TOKYO, January 30, 1939—9 p. m.

[Received January 30—11:25 a. m.]

51. 1. The following is a condensation of a report which in various versions appeared simultaneously in the papers this morning:

"Pressure against and restriction of Japan's 'new order in East Asia' on the part of England and the United States have become more and more apparent. In one section of the United States particularly there has been recently an intensification of the tendency toward anti-Japanese feeling. The former Secretary of State, Mr. Stimson, is the chairman of a committee organized for non-participation by the United States in Japanese aggression. The Committee is making vigorous efforts to have Congress pass a bill prohibiting the export of oil, iron, et cetera, to Japan. Further, with the Communist Party as the central figure, anti-Japanese propaganda is being spread among

the people. These and other movements are to be very carefully watched for their effect on the attitude of the United States towards Japan. It is said that England is engaged in the study of concrete plans for economic sanctions against Japan with the cooperation of America. France also is to enter this arrangement. These and other factors make it necessary to pay very careful attention to the movements of the democratic countries as they are directed against Japan.

Prime Minister Hiranuma and Minister for Foreign Affairs Arita have frequently since the opening of the Diet set forth their opinions concerning the policies of the Japanese Government with regard to the above situation. They have stated that the Japanese Government has made complete plans for successfully coping with economic sanctions of any sort which may be undertaken and they have made clear their determination to proceed apace with the realization of Japan's aims. Further, the Imperial Government anticipating, in view of recent international conditions, that economic sanctions may soon be imposed on Japan, is engaged in the establishment of thorough going plans to meet every exigency.

It seems that at the five-Minister meetings held on the 25th and 26th various important consultations particularly in regard to this point were held, i. e., the Imperial Government on its part, even if economic sanctions of any sort by Great Britain and the United States should become a fact in the future, will not waver in the slightest degree in its determination and established policies and rejecting all interference will forge ahead rapidly in the establishment of a new East Asia".

2. There are persistent rumors that a conference before the Emperor was held a few days ago on an unknown subject.

GREW

793.94/14667½

*Memorandum by Mr. Laurence E. Salisbury of the Division of Far Eastern Affairs*⁵⁸

[WASHINGTON,] January 30, 1939.

There is at present under consideration the question whether the United States ought to adopt an economic policy toward Japan and China intended to insure failure of Japan in its attempted conquest of China.

In this memorandum the writer has sought to reach an answer to that question only in its relation to the welfare of the United States of America; he has attempted to eliminate such influences as dislike of the Japanese military, dislike of authoritarianism, dislike of com-

⁵⁸ Nelson T. Johnson, Ambassador in China, temporarily in the United States, commented on this memorandum as follows: "Mr. Salisbury has marshalled all of the arguments against sanctions against Japan by the United States very well. He does not oppose ultimate use of this weapon but questions whether this is the time for such measures."

munism, sympathy for the suffering millions of Chinese, a desire "to do good", a desire to chastise "the bad", a desire to insure for the world some desirable but vague millenium in the not too distant future. The elimination of these influences has been attempted because such influences are emotional rather than reasoning and are apt to relegate the welfare of the United States to a secondary place.

The answer arrived at in this memorandum is: to attempt at the present time to effect the failure of Japan's policy in China through economic measures will not serve the best interests of the United States.

[Here follows discussion of the subject in detail.]

Conclusion:

The conclusion arrived at in this memorandum is that the application of economic measures directed against Japan before the certainty of Japan's success in China is established would invite the risk of a war between the United States and Japan which would be contrary to the best interests of the United States when, by waiting, risk of war with Japan may be eliminated through factors not originating in the policy of the United States.

It is believed that we should use our influence against countries engaged in breaking down orderly processes in relations between nations. The preservation of orderly processes is important to the United States. In employing that influence, it is believed that this Government should continue the policy which it has heretofore pursued; namely, in regard to Japan, approaches through the machinery of diplomacy, the withholding of aid to Japan, the withholding of assent to Japan's actions, and the taking of cautious measures of assistance to China which do not incur the risk of war.

893.515/1353 : Telegram

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

TOKYO, January 31, 1939—3 p. m.

[Received 11:45 a. m.]

53-61. Our 45, January 26, noon.⁶⁰

1. The following is summary of a telegram from my British colleague to the British Foreign Office commenting on the latter's telegram of January 23 to the British Embassy at Washington the substance of which has presumably been communicated to the De-

⁵⁹ The nine sections of this message, transmitted as telegrams Nos. 53-61, are printed as one document.

⁶⁰ Not printed.

partment^{a1} with regard to the question of applying economic sanctions:

(a) Although the telegram to Washington stresses the trade interests in China as the principal object of counter measures, Craigie feels that the main issue is far more important, there being at stake the whole political and economic future of countries with interests in the Pacific, along with the urgency of insuring the principle [of?] observance of treaty obligations. If those are the objectives, greater risks would be warranted than if the preservation of economic interests alone were sought. The establishment in the Far East of a totalitarian power is being helped by the British Empire and the United States by supply of necessary materials, and if they continue such supply the process of establishment will soon have been completed.

(b) The present is opportune moment for resolute action toward reducing purchases of Japanese merchandise and gold. It is possible that in a few months time the situation will have become less favorable. Craigie believes that the damping veto of fishery dispute with Soviet Russia is due to firmer attitude of the United States and Great Britain.

(c) Craigie does not share the view that naturally purchases of materials through or directly from third countries would prejudice effectiveness of sanctions.

(d) Craigie believes that widespread embargo would set in motion a process that would rapidly prove disastrous to Japan and that therefore there is strong probability that Japanese anticipation of increasing pressure would cause Japan to moderate her policy long before pressure reached its maximum effect. He does not believe that Japan could retaliate by making further reductions in imports from British areas without endangering her own economy and her continental policy. The object of limiting Japanese exports would be to prevent Japan from financing essential imports.

(e) Craigie reaffirmed that a policy of counter measures should not be embarked on unless there is determination to pursue it if necessary to the end, but he believes that there is slight risk of eruptions if the matter is properly handled. Any risk involved would arise from possible irresponsible action by younger officers and reactionary elements rather than from any deliberate act by the Japanese Government, and then only if there were ill-timed publicity or other form of mishandling. Present Japanese policy is based on assumption, which is still held, that the United States and Great Britain will not take joint action. The problem would be to convince the Japanese Government that such action would be taken but without any overt or public threat. In this situation the saving of "face" is an all important factor (end of summary of Craigie's analysis).

[2.?] For over a year Craigie has urged me to recommend to my Government that the United States and Great Britain jointly apply sanctions in order to safeguard their economic and political interests in the Far East, and I have consistently taken the position that I would not recommend such measures unless our Government were prepared in the last resort to adopt measures of force. Craigie has until

^{a1} See British *aide-mémoire* of January 25, p. 490.

very recently stressed the importance of safeguarding our respective economic interests in China and political interests in the Far East, and I have taken and still take the view that the United States is both politically and economically not involved in the Far East to the same degree and extent as is Great Britain and that notwithstanding their common viewpoint with regard to the sanctity of treaties and other principles of policy, it does not necessarily follow that the United States should also apply corrective measures with all the attendant risks: that was a question which could be resolved by my Government in the light of the desires and restraints of the American people.

3. As will be noted from sub-paragraph (a), paragraph 1 above, Craigie now accords first importance to safeguarding the economic and political future of countries with interests in the Pacific and to maintaining the principle of the sanctity of treaties, the conserving of economic interests in China being relegated to a secondary position. He feels that there has now been indicated a solid and sound basis for Anglo-American joint action. I have told Craigie that, in my view, the American people are now in process of making up their minds on the question whether or not they wish to join with the other democratic nations in a concerted and positive effort to maintain the sanctity of treaties and avert a future danger; that whatever decision my Government may take will be formulated in the light of dominant American public opinion; and that, having in mind the bearing on this question also of [considerations] arising in Europe, with which I am not intimately familiar and which are not within the compass of my duties, any recommendation from me one way or the other would be out of place. Nevertheless I have also told Craigie that I am keenly aware of the importance of my appraisal of the question whether economic sanctions would be effective, and that I hope to be in a position shortly to advise my Government in that regard.

4. As stated in our 48, January 27, 6 p. m.,⁶² we are now studying the question of the possible effects of sanctions, and I wish to reserve my considered observations on Craigie's comments. I should however make brief references to the following points:

(a) Adverse predictions concerning Japan's economic future which have been freely made during the past few years, to which we have not subscribed, have not been substantially borne out. Craigie has modified his view in this respect but holds that loss to Japan of American and British markets with consequent restriction of power to purchase essential materials would have a paralyzing effect on Japan's economy. Naturally I prefer to be guided by the results of our studies before expressing myself on this point.

⁶² Not printed.

(b) I do not subscribe to the premise and therefore to the conclusion that, because Japan's continental policy is based on assumption that there will be no joint Anglo-American action, an anticipation of increasing pressure would bring about moderation of her policy, if by moderation is meant a change in attitude which would substantially constitute respect for her treaty obligations.

(c) I do not follow Craigie's arguments on the matter of saving face. Face saving procedures or formulas are not, in my opinion, likely materially to alter the course of events in this case.

(d) It will be noted that Craigie now shares my view, subject to his comment as above outlined, that economic sanctions should not be resorted to unless there is intention to resort if necessary in the last analysis to force.

5. In summary, my present thoughts with regard to Craigie's analysis run somewhat as follows:

(a) Confidential communication to the Japanese Government that the United States and Great Britain, acting in concert, had definitely determined to apply economic sanctions might conceivably bring about some moderation of Japanese restrictions on foreign interests in China, but no Japanese Government could agree to an appreciable return towards the *status quo ante* and British policy;

(b) In any event, ill-timed publicity would be almost certain to occur, and such publicity, in the present temper of the Japanese public, especially the military, would inflame this country and would cause the gravest risk of serious incidents which, in themselves, might render recourse to force unavoidable;

(c) To threaten sanctions and to fail to carry them through would be an act of the utmost shortsightedness, ruinous to our prestige and influence in the Far East.

(d) It is true that the actual application of effective economic sanctions by the United States and Great Britain would eventually exert powerful restraint on the Japanese military and political program in China, but we are not convinced that such restraint could be made effective for a considerable period of time. In the meantime the risks mentioned in paragraph (b) would progressively increase.

6. My despatch 3591⁶³ discussing this general subject should reach the Department in a few days. Another despatch⁶⁴ endeavoring further to analyze the practical effect of economic sanctions on Japan is now in course of preparation and will go forward in the next pouch on February 16. I know only through my British colleague that this subject is now being discussed in Washington but in view of this knowledge and the fact that the subject is also at present being given intensive consideration here (see our 51, January 30, 9 p. m.) it appears desirable to send the foregoing comments by cable rather than by mail.

No repetition.

GREW

⁶³ Dated January 7, p. 478.

⁶⁴ No. 3679, February 14, not printed.

798.94/15197

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] February 3, 1939.

The British Chargé d'Affaires called to see me this morning. Mr. Mallet was instructed by his Government to discuss with me the question of the possible taking of retaliatory measures against Japan dealt with in Mr. Mallet's *aide-mémoire* of January 25. Mr. Mallet was instructed to give me to read the telegram sent the British Foreign Office by Sir Robert Craigie, the British Ambassador in Tokyo, in which the latter differed in some of the considerations advanced to the United States Government by the British Foreign Office. Upon reading the telegram which Mr. Mallet gave me I told him that the contents of this telegram had already been communicated to the Department by Ambassador Grew⁶⁵ and that we were consequently familiar with the views expressed. Mr. Mallet replied that his Foreign Office knew that Sir Robert Craigie had showed this telegram to Mr. Grew but they had not been certain whether Mr. Grew had reported the contents thereof fully to the Department.

I told Mr. Mallet that he might inform his Government that very full consideration had been given to this question by the Secretary of State himself and that this Government had reached the conclusion that for the time being its point of view was more or less that expressed by the British Government in its *aide-mémoire* of January 25.

I said that this Government would not consider for the time being undertaking retaliatory measures against Japan. I stated that if as the time passed we desired to consider the matter further, we would inform the British Government accordingly and discuss further with them some of the issues involved.

S[UMNER] W[ELLES]

894.51/612: Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary
of State*

LONDON, February 3, 1939—7 p. m.

[Received February 3—6 p. m.]

157. 1. With reference to the questions raised in the Department's 77, January 30, 5 p. m., inquiries in the City indicate as regards (a) British banks and firms still extend to certain Japanese interests short term credits but on a decidedly reduced scale. The old lines of credit that are kept in being are only a fraction of the amounts normally

⁶⁵ See telegram No. 53, January 31, 3 p. m., *supra*.

extended in the past. They have been progressively reduced since July, 1937, with the shooting of Ambassador Knatchbull-Hugessen⁶⁶ considerably accelerating the process. The method employed in most cases has been to reduce the credit or terminate it altogether when the facility expires and comes up for renewal. The London discount market is reluctant to take Japanese paper and such as is in circulation carries 2% instead of the normal three quarters—seven eighths. The best unofficial estimate of total current credit facilities to Japanese interests places the upper limit at 500,000 pounds. In the given circumstances new lines of credit would be difficult to establish here except against adequate security. (b) The main agency in London used in pegging the yen to the pound is the London branch of the Yokohama Specie Bank which holds sterling balances in British banks and is also believed to have the facility of drawing on a dollar account with the Yokohama Specie Bank in New York and perhaps the regular New York banks as well.

It is understood that in Japan pound drafts are issued at a fixed rate of exchange and these are of course banked and cleared through London. Furthermore, London foreign exchange dealers in order to buy yen must do so through the London branch of the Yokohama Specie Bank (or those of the Mitsui and Mitsubishi banks which are in a measure subservient participants with the former) and at the rate of 1 shilling 2 pence since a certificate of the rate from such a Japanese bank is required in order to effect the necessary transfers of funds in Japan. Likewise the above mentioned London branches are practically the only sellers of yen in this market for the reason that accounts remain blocked in Japan unless a license for such a sale is granted by the Japanese authorities.

Thus the Yokohama Specie Bank is in a position in cooperation with the other Japanese financial institutions to conduct by means of its pound and dollar assets the necessary operations to preserve the yen relationship to sterling. It is generally believed that the London Yokohama Specie Bank has not indulged in large scale gold operations in the recent past.

The basis for a credit naturally differs occasionally and is difficult to ascertain but it is more than doubtful as to whether any legal connection exists between a credit given say by a British joint stock bank to a Mitsui interest and the sterling balance which the Mitsui Bank, Limited, may have with that British bank but it is possible that the presence of such a balance might have a psychological effect in influencing the British joint stock bank partially to maintain a facility for an old and valued trading connection.

⁶⁶The British Ambassador in China, while motoring from Nanking to Shanghai, was wounded by Japanese attack from the air late in August 1937.

2. Incidentally Rogers⁶⁷ arrived in London a few days ago having left Chungking by air a week previously and no doubt the customs loans question⁶⁸ precipitated his coming as much if not more than the general situation. If the Department desires in this connection appropriate inquiries to be made here I trust it will so instruct.⁶⁹

JOHNSON

893.515/1353 : Telegram

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

WASHINGTON, February 4, 1939—1 p. m.

28. Your 53, January 31, 3 p. m. On January 25 the British Chargé d'Affaires here handed the Under Secretary an *aide-mémoire* on the subject of the second of the two matters mentioned in your 45, January 26, noon,⁷⁰ paragraph 1. On February 3 the Under Secretary informed the British Chargé d'Affaires orally that we had tentatively arrived at a conclusion similar in general to the conclusion tentatively arrived at by the British Government.

HULL

894.6511/26

Memorandum of Conversation, by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] February 6, 1939.

Messrs. Arensberg, Ruslander and Lang⁷¹ were sent to me by Mr. Charles Moser of the Department of Commerce. Mr. Moser had informed me that he had discussed with them the commercial aspects of the project under reference and he was asking them to consult me about political aspects.

Mr. Arensberg stated that he and his associates are manufacturers of steel and machines; that they are one of the largest producers of certain types of machines; and that they have done extensive business in Great Britain, including the setting up of a mill there, and in France. He said that they own at present a mill located at Wooster, Ohio, which, in their business, has been superseded and which they are not using. Japanese interests (he mentioned the Mitsuis and Mitsubishis) have come to them with a proposal that the mill be moved to

⁶⁷ Cyril Rogers, of the Bank of England, Adviser to the Central Bank of China.

⁶⁸ See pp. 800 ff.

⁶⁹ The Department replied that it would welcome "any information in regard thereto which might become available without special effort on the part of the Embassy."

⁷⁰ Not printed.

⁷¹ Of Pittsburgh.

Japan, that a new company be created there in which the stock will be held 51 percent by the Japanese and 49 percent by the owners of the mill under reference, the Japanese paying the cost of shipment to New York and taking the parts to Japan by Japanese ships. Mr. Arensberg wished to know whether the Government would prohibit or "veto" such a transaction.

I replied that, as I understood it, the sellers were to be given no cash but were to be paid in stock. Mr. Arensberg said that that was correct but that the Japanese would pay the expenses involved in moving the mill. I remarked that this would not apply as payment on the property. Mr. Arensberg assented. I asked whether, then, this would not have to be considered a credit transaction. Mr. Arensberg replied that it would: that the sellers would expect to get their compensation over a period of years from dividends on their stock. I then said that, first of all, there is no law so far as I know prohibiting such a transaction; second, the Government would not, in fact could not, either prohibit or "veto" it; but that, to be utterly frank, the Government is discouraging such transactions on a credit basis. Mr. Arensberg inquired whether the Army or the Navy would be interested and would wish to "prohibit" such a "sale". I said that it was my understanding that the Army and the Navy were directly interested only where there was involved something in the nature of a machine or an instrument which had some special features possessing some peculiar military character. Mr. Arensberg said that the machinery which the mill under reference manufactures is not in itself of a military character nor does it produce military instruments: it comes in the field of machine tools, lathes, etc. I said that I did not think that the Army or the Navy would be interested but that if he cared to consult them there would be no reason at all why he should not do so.

Mr. Arensberg then asked whether this Department's expression of opinion would go beyond merely saying that we neither approve nor disapprove. I said that it would go a bit beyond that: I repeated that we cite no law prohibiting, we can ourselves neither prohibit nor veto, but we cannot in good conscience do otherwise than discourage—credit transactions. I said that we had done this in a number of instances. Mr. Arensberg asked whether this applied only in the case of Japan. I replied that in any particular situation the principle would have to be considered in relation to the question of what in the opinion of the Department would be in the best interests of the United States.

Mr. Arensberg said that he thoroughly understood our position: he thanked me for having given him and his associates time and for having been frank.

Mr. Lang remarked that it was a pleasure to do business with a government where business could be done promptly; and that he

thought that in some other countries it might have taken a month to do what he and his associates had been enabled to do in Washington this morning.

STANLEY K. HORNBECK

894.24/640

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Ballantine)

[WASHINGTON,] February 6, 1939.

With regard to the utilization in Japan of cotton, which has been listed among the war materials for which Japan is dependent upon foreign sources of supply (see FE memorandum dated January 7, 1939, and entitled Provenance of Materials Used by Japan in the Conflict in China), there is given below a table compiled from the figures worked out in the Department of Agriculture showing Japan's cotton imports, mill consumption, and exports of cotton goods since 1936 converted into bales of raw cotton.

IMPORTS INTO, MILL CONSUMPTION OF COTTON IN JAPAN AND EXPORTS
FROM JAPAN OF COTTON CONVERTED INTO BALES OF RAW COTTON
1936-1938

(Thousand bales of 478 pounds)

	1936	1937	1938 (9 months)
Imports of raw cotton	4,221	3,819	1,889
Mill consumption	3,491	3,832	2,118
Exports	1,899	1,878	—?

Three tables of statistics furnished by the Department of Agriculture from which the foregoing table was prepared are attached hereto.⁷²

It should be noted that the figures given above include consumption only by mills of the Japan Cotton Spinners Association. Some cotton is consumed in other establishments and in households.

The foregoing table shows that during the period covered an average of 95 per cent of Japanese cotton imports was consumed by mills of the Japan Cotton Spinners Association and that of the cotton consumed in 1936 and 1937 by those mills 51 per cent went into cotton manufactures exported. Thus the percentage of Japan's imports of cotton which were used for Japanese military purposes during the period covered could not have exceeded 49 per cent of the total imports. A rough computation for the first eleven months of 1938 gives 1,340,000 bales of cotton exported in the form of cotton manufactures as compared with 2,330,000 bales of raw cotton imported. Thus, as 57 per cent of the imports of raw cotton during this period was con-

⁷² Not printed.

verted into cotton manufactures which were exported, not more than 43 per cent of the cotton imported during the first eleven months of 1938 could have been used for military purposes.

793.94/14671

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] February 11, 1939.

Reference, Tokyo's No. 3591 of January 7, 1939, and current communications from Tokyo on the subject of possible economic pressures against Japan; and Mr. Ballantine's digest of despatch and comments thereon.⁷³

During the first forty years after Perry's "opening" of Japan, the world looked upon the Japanese as a comparatively amiable, artistic and art loving, and peaceful people who needed to be taught and could be patronized. In 1895, the Japanese defeated the Chinese in a "little" war. In 1905, the Japanese fought the Russians to a standstill in Manchuria in a war in which the Japanese gained a great reputation for bravery and military skill but which was brought to an end, prematurely, without a conclusive test of the "staying power" of either belligerent. Since 1905, that is, for more than forty years past, Japan has enjoyed the reputation of being a great power and the Japanese Army and Navy have been considered tremendously formidable.

The estimates of Japan, both earlier and later, have been out of perspective.

Japan's character is not what it was thought before 1895 to be. Japan's strength is not what it has been thought since 1905 to be.

Over and over, since 1905, the world has, because of fear of Japan, acquiesced in aggressive predatory activities on Japan's part. Steadily, the self-confidence of the Japanese, thus encouraged, has grown greater; and the determination of the Japanese to make of their country not a great power but the greatest of powers has become more deep-seated.

Step by step, Japan has moved forward; and step by step other powers have yielded ground to her. Thus far the only people who have offered forceful resistance to Japanese aggression are the Chinese.

There are three methods by which, toward defending their rights and interests, nations whose rights and interests are invaded or menaced by other nations may offer resistance: by moral opposition (including all kinds of argumentation), by economic opposition, and/or by military opposition.

⁷³ Digest not printed.

The United States and other countries have over a period of a number (many) of years been attempting to defend their rights and interests, vis-à-vis Japan, in China, by processes of moral opposition (only). In the case of the United States, this procedure has perhaps to some extent retarded the destruction of our rights and interests by Japan, but it has not effectively safeguarded our rights and interests. Nor will it effectively do so.

This country might place in Japan's way economic opposition, but it does not choose to do so. To every proposal that it should do this, there is made the answer that the Japanese are a determined, a militant and a powerful people—and that they might retaliate by an appeal to arms.

Moral opposition not sufficing and economic opposition being not even tried, the prospect is that in the long run, barring unpredictable opposition to Japan by other countries, the situation will so develop that military opposition by this country will have to be offered.

S[TANLEY] K. H[ORNBECK]

793.94/14732: Telegram

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

TOKYO, February 20, 1939—7 p. m.

[Received February 20—9:35 a. m.]

100. The Minister of Foreign Affairs in the course of a recent conversation with my British colleague said that talk of foreign economic pressure on Japan tended to stimulate the movement here for economic self-sufficiency or at least to lessen Japan's reliance on foreign powers. On Craigie's observing that too much attention should not be paid to press talk, the Minister replied that he understood that the Governments of Great Britain and the United States had been exchanging views on this subject. The Ambassador responded that despite the unfair treatment of our interests during 18 months the fact remained that economic pressure had not been applied although it was his opinion that such pressure could be made overwhelming in present circumstances. In any case the simply [*simple?*] remedy of dealing more reasonably with the rights and interests of foreign powers remained with Japan.

GREW

793.94/14667½

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] February 25, 1939.

There are attached below four memoranda volunteered by officers of the Division of Far Eastern Affairs on various aspects of the situa-

tion in the Far East and problems of American policy and action in relation thereto, as follows:

Memorandum by:

Mr. Vincent, July 23, 1938; ⁷⁴
 Mr. Sturgeon, December 1, 1938; ⁷⁵
 Mr. Adams, January 27, 1939; ⁷⁵
 Mr. Salisbury, January 30, 1939. ^{75a}

Of these officers, Mr. Adams and Mr. Vincent are "China" officers; Mr. Salisbury and Mr. Sturgeon are "Japan" officers.

Mr. Adams and Mr. Vincent take positions to the effect that the United States could and should follow a positive course in regard to the Far Eastern situation. Mr. Salisbury takes a position that we should at some time act but the present is not the opportune moment. Mr. Sturgeon takes a position that we are not in position to act.

Mr. Vincent, writing seven months ago, expressed views, among others, as follows: "I believe . . . ⁷⁶ that it is vitally important not only for China but for us and for other democratic nations that Chinese resistance not collapse. . . . I cannot but earnestly recommend that, within the limitations of our desire to avoid involvement . . . we should overlook no opportunity now to bolster up Chinese will and ability to resist, and to embarrass the Japanese in their attempts to conquer China. To those ends I believe (a) that the doctrine of non-recognition should be unequivocally restated to apply in the present situation, (b) that as a corollary to non-recognition steps should be taken effectively to discourage loans or material credits to Japan or to Chinese régimes or agencies under Japanese control, (c) that the possibility of affording financial assistance to China should be thoroughly explored, (d) that our trade with Japan should be carefully examined with a view to withholding, either through export or import restrictions or both, assistance to Japan, and (e) that consultation and collaboration, if possible, with other interested governments in regard to the implementation of feasible measures should be undertaken.

"I realize that some of these matters can only appropriately be dealt with legislatively rather than administratively, but in so far as action may be taken administratively I feel that it should be taken, and where legislative action is required I think that the influence of the Department should be brought to bear."

Mr. Sturgeon, writing two months ago, took the position "that retaliatory action on our part, if taken at all, should be strictly limited to such measures as would afford the least possible opportunity for the Japanese military authorities in China to make issues of them." He favored watchful waiting. He brought his memorandum to a close

⁷⁴ *Foreign Relations*, 1938, vol. III, p. 234.

⁷⁵ Not printed.

^{75a} *Ante*, p. 496.

¹⁶ All omissions herein indicated in the original memorandum.

with the statement, "It is believed that our moves in this situation should be made in such manner as (a) to leave the way, as well as the atmosphere, clear for the settlement of some of the questions at issue by the conference method and (b) to leave the way open for revision or adjustment of our Far Eastern policy to conditions which probably can only be correctly appraised after the Sino-Japanese hostilities may come to a definite conclusion."

Mr. Salisbury, writing at the end of January, also advocated watchful waiting. He addressed himself especially to "the question whether the United States ought to adopt an economic policy toward Japan and China intended to insure failure of Japan in its attempted conquest of China"; and he undertook "to reach an answer to that question only in its relation to the welfare of the United States of America." He stated his conclusion at the outset: "to attempt at the present time to effect the failure of Japan's policy in China through economic measures will not serve the best interests of the United States"; and he stated it again at the end: "The conclusion arrived at in this memorandum is that the application of economic measures directed against Japan before the certainty of Japan's success in China is established would invite the risk of a war between the United States and Japan which would be contrary to the best interests of the United States when, by waiting, risk of war with Japan may be eliminated through factors not originating in the policy of the United States."

Mr. Adams, writing a month ago, gives account of Japan's occupation in areas in China and setting up of machinery for exploitation; and of Japanese official statements of intention. He says: "Developments during the past few years in Manchuria and in China south of the Great Wall remove any reason for thinking that Mr. Arita's definition of Japan's aims might be an overstatement. It is now obvious that Japan intends to preempt for itself East Asia; that any participation by western powers or their nationals in developments there must in effect, if Japan's plans prevail, be in aid of and subordinate to Japan's plans; and that any participation in the trade of that area by occidental countries must be subordinate to Japan's requirements." He then points out what a successful execution of Japan's intentions in China might be expected to cost the United States. He states that he has begun "to incline to the opinion that to continue to expect Japan to bog down for want of financial resources would merely be wishful thinking." He inquires whether it would be easier to stop Japan now than to deal with the situation which would exist were Japan to consolidate her position in China. He asks, "Is it not possible that failure to take action now may in years to come be looked back upon as another lost opportunity . . . ?" He discusses the question of cooperation among the powers toward checking "lawless neighbors". He points out that the United States is "the only strong law-abiding

member of the community not restrained by threat of an immediate checkmate from another quarter, from attempting to maintain order in the Far East which is a neighborhood where for a long time the United States has played a leading role." He continues: "The United States is in a key position. Her comparative inactivity in the maintenance of community order paralyzes British and French action both in Europe and the Far East." . . . "There is reason to believe that if the United States had been in a position to deal effectively with Japan in the Far East during the past year, and had been so doing, Great Britain and France would have been able to restrain Germany." He quotes, to the point, from the Secretary of State's speech at Nashville on June 3, 1938.⁷⁷ He submits that ". . . if the United States should decide to act in the present emergency in the Far East, we should definitely choose between a course calculated to stop Japan and one designed merely to decrease the measure of Japan's success in the present China venture. Unless we are prepared to make our action decisive, we would be well advised to limit our measures to steps that would not provoke thorough-going retaliation by Japan." He discusses the "extensive field of action lying between a do-nothing policy and action having in mind possible resort to armed force." He believes: ". . . that a decision to stop Japan need not necessarily lead to actual clash of our armed forces with those of Japan, particularly if the United States were prepared as a last resort to proceed to that length." He suggests possible lines of procedure directed toward specified possible objectives (see pages 14-16).

As possible "immediate and specific objectives", Mr. Adams suggests: (1) freedom for American cultural enterprise in China; (2) equality of financial and business opportunity for American citizens in China; (3) preservation of the integrity of Chinese Government revenue-collecting agencies; and (4) effort to preserve Japan's dignity and self-respect. In the realm of possible action, Mr. Adams suggests: (1) notification of termination of the American Japanese commercial treaty of 1911; (2) prohibition of extension (by American nationals) of financial assistance to Japan or to "Manchukuo"; (3) withdrawal of American Ambassador to Japan; (4) effort to accomplish promptly a paralysis of Japan's foreign trade; (5) effort to persuade other countries to adopt similar measures; and (6) extension of further financial assistance to China.

Mr. Adams takes account of the possibility that the Japanese (or some Japanese) might retaliate by measures which would adversely and seriously involve Americans and American interests in the Far East. (He has expressed, however, the view that this need not necessarily lead to a clash of armed forces.)

⁷⁷ For excerpts, see Department of State, *Press Releases*, June 4, 1938, p. 646.

Mr. Adams' memorandum ends with the statement: "Nevertheless, it is believed that with resolute leadership American opinion would on the whole see the justice of and support the measures suggested in this memorandum."

I have submitted these memoranda to Ambassador Johnson and the Ambassador has made written comment on them as follows: "I have read these memoranda. I find myself more in sympathy with the statements contained in the memoranda submitted by Messrs. Adams and Vincent—especially Mr. Adams—than with the arguments of Messrs. Salisbury and Sturgeon which are of the nature of a *non possumus*. Salisbury at least recommends action but feels that the present is not the time. I for one feel that we must begin now to show our teeth and that we must go forward from now on or we may forever find ourselves estopped from taking action. Some day we may have a Japan claiming everything west of the 180th meridian as Japanese sphere within which we may neither fortify nor enter without Japanese permission."

Ambassador Johnson has also made express comments in regard to particular items, as follows: "Mr. Salisbury has marshalled all of the arguments against sanctions against Japan by the United States very well. He does not oppose ultimate use of this weapon but questions whether this is the time for such measures."

"I agree with Mr. Adams' statement of Japanese aims in the Far East."

"We cannot afford to wait too long. Time is with China in its conflict with Japan but time is with the totalitarian states in their relations with the democracies."

"The British Empire is gone. In succession to its power and responsibility we have a community of independent States, Canada, Australia, South Africa, England and, more influential, the United States, which departed from the Empire earlier but with violence. The United States as the richer and more influential member of this community must take the initiative in preserving the ideals of international relations and the kind of a world which that Empire stood for and made possible."

In this account of the contents of these memoranda, more attention has been given by the undersigned to Mr. Vincent's and Mr. Adams' memoranda than to Mr. Sturgeon's and Mr. Salisbury's memoranda, for the reason that Mr. Vincent's and Mr. Adams' memoranda are affirmative in character; they urge that a new attitude be adopted and new steps be taken; and, on the principle that the burden of proof lies with the affirmative, they present the constructive side of the case. Mr. Sturgeon's and Mr. Salisbury's memoranda support an attitude which at present prevails, and advocate, generally

speaking, persisting for the present in that attitude, and therefore present the negative side as regards the question of "action".

All four of these memoranda are well worth reading if time permits. The Secretary and the Under Secretary have already, some time ago, seen Mr. Vincent's memorandum, but it is worth a re-reading.

S[TANLEY] K. H[ORNBECK]

793.94/14797a

*The Ambassador in China (Johnson), Temporarily in the United States, to President Roosevelt*¹³

WASHINGTON, February 27, 1939.

MR. PRESIDENT: The Chinese people under the leadership of the National Government now temporarily seated at Chungking and under the leadership of Generalissimo Chiang Kai-shek intend to continue resistance to the Japanese invasion of China. It is my belief that the Chinese will be able to continue this resistance indefinitely. Generalissimo Chiang told me the day before I left Chungking last December, and I know no reason to doubt the statement, that his armies were intact and that they had military supplies sufficient to carry them on for two years at the present rate of guerrilla expenditure. They hope for assistance from the outside world in the economic field. Chinese Government supplies of silver are practically exhausted and they will be put to it to maintain China's currency in exchange for foreign currency.

Japan lost the war when it failed to obtain a peace dictated on the basis of Japanese terms under the walls of Nanking as the British did in 1842. When the Japanese took Nanking, found the Government gone and the Chinese armies gone they were left with the alternatives of consolidating their positions at Shanghai and in north China and controlling an established Chinese Government in the interior from the coast, or proceed to the conquest of China. It is my conviction that the Japanese Army chose the latter alternative. It has from time to time announced, and continues to announce, that peace is not possible until it has smashed the Chinese National Government and Generalissimo Chiang. This announced policy and the cruelties which have accompanied the Japanese advance into the interior have done more to unite the people of China behind the National Government and Chiang, who symbolizes the Chinese desires for an independent national existence, than anything else and I feel that the Japanese Army has commenced something which it cannot finish. I feel, how-

¹³ Transmitted to President Roosevelt by the Secretary of State in his covering letter of March 3.

ever, that it is going to take a long time for the military leaders of Japan to discover this, for the Chinese are in no position to administer a decisive defeat to the armies in the field. The struggle must go on as it is now, the Chinese resisting by means of guerrilla tactics which at best can only prolong the conflict to the point where Japan will be exhausted economically, culturally and physically. I sometimes wonder whether the East is not threatened with the kind of collapse of civilization which we have sometimes heard Europe threatened with if another European war should commence. War is on in the East. There is no leader in China who could make peace with the Japanese and carry his people with him and there is no leader in Japan who could make peace with the Chinese on terms less than the Japanese Army desires and carry the Army with him. The only hope that the Japanese have at the present time is to make peace with a Japanese-fostered régime or régimes in China but such a peace will of necessity involve the Japanese in the responsibility of disarming the people of China in order to make it possible for the writ of such a Japanese régime to run beyond the walls of the towns in which the régimes have their homes.

History will record that the outstanding event of this decade was the end of the British Empire as a unit. The Statute of Westminster marked that end. London is paralyzed now in any decision that it may have to make for it cannot make such a decision on the assumption that Canada and Australia and South Africa will support its decision without question. The frontiers of the United States are the world. As the eldest son of the old British Empire (a son, it is true, who ran away from home and set himself up independently in business at the time when the Empire was in the making) we must from now on share with Canada, Australia and South Africa and England the responsibility of maintaining the ideals which characterized international intercourse during the years that the British Empire was dominant in world affairs or see those ideals lost. We are strong and capable and whether we like it or not our decisions are looked for and listened to with a great deal of respect. We must lead the world out of the chaos in which it is now struggling. I feel that the day of colonial empires is past. Japan must slowly come to that realization. Japan has already expended a greater sum upon its attempt to start an empire in Asia than England spent as the initial cost of the establishment of the British Empire. If civilization is not to be lost, the United States must and will play a greater part in its preservation than we now seem conscious of the necessity for. Dictatorships such as that now controlling Japan understand force and will yield only to superior power. It is not a question whether we are going to war or not. The question is whether we are ready to fight for the ideals

which we have hitherto held as necessary to a peaceful existence. If the world and particularly the dictatorships understand that we are prepared to fight, they will exercise more care in their relations with us and the rest of the world. You cannot send a policeman armed with a truncheon to deal with a gangster who is armed with a machine gun.

The situation demands that we, as the most powerful unit in a world of nations, must begin now to consider the part that we are to play. Unless we begin to show our teeth now and indicate to the world and specifically to Japan that we mean business we may forever find ourselves estopped from taking action. We may perhaps find ourselves with a Japan taking everything west of the 180th meridian as the Japanese sphere of influence and interest within which we may neither improve or fortify our own interests nor enter without Japanese permission. Time is with China in its conflict with Japan but time is with the totalitarian states in their relations with the democracies. We should do what we can to assist and encourage the Chinese in their fight for an independent national existence. The Pacific area will be safer for us and for the world if there are three nations involved, namely, China, Japan and the United States, than if there are but two, Japan and the United States. Japan cannot complete its adventure in China without the financial assistance of the United States and we as a government should take such steps as may be necessary to discourage financial assistance to Japan or to those régimes which Japan may attempt to set up in China. We cannot afford to wait upon other nations in regard to this matter. It is not a question of saving British chestnuts, our own chestnuts are involved.

Respectfully,

NELSON TRUSLER JOHNSON

798.94/14821

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] March 7, 1939.

Mr. Renchard of the Secretary's office brought Congressman Keller ⁷⁹ to me with the statement that the Congressman had just seen the Secretary and that he (the Congressman) was interested in talking to someone in regard to the situation in the Far East.

Congressman Keller inquired whether I thought the Chinese could win against Japan. I replied that there were of course differing opinions on this subject among qualified and intelligent observers;

⁷⁹ Kent E. Keller, of Illinois.

that observers such as Lattimore⁸⁰ and Peffer⁸¹ had rather consistently expressed the view that Japan could not win; that other qualified observers held a contrary view. I said that the circumstances of the absorption by China of its Mongol and Manchu conquerors constituted in my opinion no adequate basis for deducing that China would absorb Japanese conquerors: I cited reasons. I said that my own personal view, which was not for quotation or attribution, was that it would be a mistake for anyone to base a policy on an assumption that the Chinese would be able by their own efforts to defeat the Japanese and that, while one could of course not be sure, it seemed to me that, were China and Japan left entirely alone and free from outside influences, the factors in favor of Japan were stronger than were the factors in favor of China. I said that one thing seemed clear, namely, that there was no present prospect of an end of the conflict and that it would probably continue for a number of years.

Congressman Keller asked what we could do toward assisting China and toward making Japan's task in China more difficult. I commented that decision in regard to measures directed toward those ends would seem to rest in large part with Congress.

There then ensued general discussion of the Far Eastern situation, in the course of which Congressman Keller evidenced especial interest in questions of military tactics and strategy. I therefore telephoned M. I. D. in the War Department and arranged for Major Betts to see Congressman Keller.

Congressman Keller said a number of times that what had been said would be treated by him as confidential and that he was interested in doing something by way of making Japan's task more difficult. He said that he was considering introducing a resolution embargoing the export to Japan of commodities such as oil, scrap iron, etc. When I asked what in his opinion the likely congressional reaction would be to such a measure, he said that he did not know but that public opinion throughout the country was ninety percent in favor of some such action. He said that he believed that Japan would be able, unless other powers made their influence felt, to conquer China and that thereafter Japanese aggression would move to new fields. He intimated his belief that if Japan should be successful in China, some day the United States would have to fight Japan and he said that he would rather take some action now directed toward making Japan's task difficult than to wait until Japan had completely consolidated its position in China.

M[AXWELL] M. H[AMILTON]

⁸⁰ Owen Lattimore, Director of the Walter Hines Page School of International Relations, Johns Hopkins University; Editor of *Pacific Affairs*; author.

⁸¹ Nathaniel Peffer, Professor of International Relations, Columbia University; author.

793.94/148181

*Memorandum by the Ambassador in Japan (Grew)*⁸²

TOKYO, March 13, 1939.

Reference is made to a departmental intraoffice memorandum dated February 15, 1939, copy of which was enclosed by Mr. Hamilton in his letter of February 17, 1939.⁸³ The memorandum addresses itself to what is described as the "economic analysis" in our despatch No. 3591, January 7, 1939, on the question of the application of economic sanctions against Japan.

In part II of the memorandum under reference there are presented comments on the conclusion reached in the study of the British Embassy⁸⁴ which are substantially, if not precisely, similar to the comments made by us in our despatch No. 3679, February 14, 1939,⁸⁵ and are, therefore, to be noted with satisfaction. In part I of the memorandum, however, there appear certain observations which need to be noticed.

The position taken therein by the officer who prepared that memorandum is that in our No. 3591 we gravely under-estimate the economic consequences to Japan of the sanctions suggested by the British Ambassador to Japan. Unfortunately, no unqualified and definitive statement supporting that judgment can be found. The officer does indeed suggest that "sanctions might shake the Japanese economy from top to bottom", but he is "not prepared to assert positively the degree to which economic sanctions would have these graver effects"; and again "if she (Japan) suddenly became unable to obtain imports from the United States and the British Empire, her industry would receive a serious shock", and "more tardily her military efficiency would be impaired". The consideration on which the officer appears principally to have based the position which he suggests but does not espouse might be briefly, and not unfairly, reduced to this: Japan's industry is far more highly geared than it was in 1920* and, therefore, her industrial and economic systems could not be made to operate on the basis of raw materials purchasable outside the United States and the British Empire with the proceeds of goods exported to the value of average exports between the years 1916 and 1920.

⁸² Transmitted to the Department by the Ambassador in Japan in his letter of the same date; received April 3. In his letter the Ambassador stated that the views in his memorandum represented also those of the Counselor and the Second Secretary of Embassy in Japan, Dooman and Coville, respectively.

⁸³ Neither printed.

⁸⁴ See telegram No. 53, January 31, 3 p. m., from the Ambassador in Japan, p. 497.

⁸⁵ Not printed.

*Notwithstanding the depreciation since 1920 of the yen in terms of foreign exchange or of gold, the relatively small decline since 1920 in its internal purchasing power makes it a useful standard of comparison of volume of exports in 1920 and 1938. [Footnote in the original.]

We have now under preparation a despatch⁸⁶ supplementing our 3591, January 7, 1939, and presenting at some length our more considered views with regard to the problem of sanctions, and it is proposed, therefore, in the present memorandum to address ourselves principally to the expression of belief contained in the memorandum under reference, that the question of the economic consequences of sanctions cannot legitimately be reduced to: "Is Japan likely to make any concessions to the United States and Great Britain which would prejudice the success of her China policy in order that her present standard of living be maintained?" In this connection we note that the officer who prepared that memorandum agrees that sanctions would be unsuccessful "if the only consequence of sanctions should be a reduction in the standard of living". The question which needs to be examined is whether there would be other consequences and, if so, what those consequences would be.

The first point to be considered is the degree to which sanctions would deprive Japan of primary materials in general, as distinct from materials necessary for continuing military operations.

We have already presented to the Department in our despatch No. 3679, February 14, 1939, the conclusion that sanctions, if applied, would put into operation certain forces which would prove ultimately disastrous to the existing economic system, but we did not go into the question of what new economic system might be devised to meet a condition of extreme emergency, nor did we go into the question of the uses to which Japan could put new resources available in the occupied areas in China. It might be pointed out, however, that the nationalization of mechanical industry is not the least drastic of the measures which are actually under preparation and which are intended to be promulgated in the event of such emergency. Japan is self-sufficient in the matter of food supplies: she cannot be starved out, and, with the necessary reorganization in the systems of supply and demand, food can be made available for all. Again, the capital invested in Japan's mechanical industry derives from only a very small proportion of the population: the incidence of nationalization of mechanical industry would, therefore, fall largely on the numerically unimportant investing classes. Further, as the continuation of the capitalistic system has already been mortgaged and now depends on the grandiose Japanese plans in China being successfully carried out, the failure of the aims in China because of either a military defeat or the effects of sanctions, would inevitably result in the collapse of the capitalistic system. If her economy were doomed in either case, would Japan persist in her China campaign or "fold up"? The choice which the Japanese Government intends to make has been authoritatively indicated.

⁸⁶ No. 3756, March 15, *infra*.

The elements now in power in Japan have repeatedly declared their intention to evolve, if necessary, a new economic system, which would enable Japan, notwithstanding the restrictions imposed in the matter of sanctions, to continue with her present program in China. The question whether the Japanese people would readily support and accept the new system is one which can be answered only by estimating the capacity of the Japanese people to accept the necessary sacrifices and their readiness to support their leaders. This is, therefore, a political question and not an economic one.

Although we agree that sanctions would deprive Japan of the markets and raw materials necessary for the operation of her mechanical industry under a capitalistic system, we do not know the extent of Japan's stocks of military raw materials and we doubt whether any one not a Japanese has any reliable knowledge of such stocks. For more than twenty years military attachés in Tokyo have noticed that the appropriations for both the Army and Navy have been in excess of computed costs of operation (including costs of construction and purchase of new equipment) of military and naval establishments, and the conclusion is reasonable, if not certain, that the surpluses have been applied to the purchase of reserve materials. It is doubtful whether even an intensive examination of export returns to Japan of various countries over a period of, say, twenty years, would result in producing a reliable estimate of Japan's reserve of military raw materials. In any event, we have made no such study and we cannot assume that the stocks are negligible. In one respect at least they are known to be large: the reserve of fuel oil of the Japanese Navy is known to be sufficient to meet naval needs under conditions of war for a period of not less than three years nor more than four years. We believe that there are too many unknown and political and other intangible factors† involved in the question of determining whether Japan could, under the conditions envisaged, have access to sufficient materials to carry on military operations, and that, therefore, speculations on this score should be eliminated from our calculations.

The conclusion that consequences of sanctions would be so severe as to bring about a modification or abandonment of Japanese policy in China, postulates a choice for the Japanese only between preserving their present economy and modifying, if not abandoning, their present policy in China to avoid the imposition of sanctions and hence a collapse of the existing economic system. Those who hold this view deny or overlook the fact that there is implicit in the problem any such alternative as that above outlined. As above suggested, they are

†For purposes of illustration.—The Netherlands Government has stated that it would not apply sanctions against Japan unless the security of the Netherlands East Indies were guaranteed by the United States and Great Britain. Would the United States support that guarantee? [Footnote in the original.]

content to assume that as sanctions would effectively deprive Japan of necessary primary materials or alternatively war materials, she would inevitably be brought to her knees by the operation of sanctions. Only two days ago, the Minister of War and the Minister of the Navy declared that economic and social adjustments calculated to meet emergency conditions would be made if necessary, and we have no reason to discount such declarations. Nor can we assume that the Japanese people would not accept and support such changes. We cannot say whether the new economic system, if established, could be made to operate successfully under the conditions created by sanctions, but all the indications of developments occurring under our immediate observation are that the Japanese Government and people are prepared to face the lower standard of living which would inevitably follow these changes sooner than modify materially or abandon their policy in China.

894.50/110

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

No. 3756

TOKYO, March 15, 1939.

[Received April 3.]

SIR: In reference to our telegram 53, January 31, 1939, 3 p. m., and despatch 3679, February 14, 1939,⁸⁷ both on the subject of possible economic retaliation against Japan, particularly as favored by the British Embassy at Tokyo, I have the honor to enclose herewith copy of paraphrase,⁸⁸ as supplied to me, of telegram from the British Ambassador January 27, 1939, to the British Foreign Office (which was substantially embodied in our telegram 53), and to submit the following brief comments on points touched upon in the telegram and not treated in the despatch.

In conversations last year between Sir Robert Craigie and myself, and between members of our respective staffs, we noticed that there was reflected in the observations of our British colleagues an assumption that there is a quantitative and qualitative identity of American and British interests and that, therefore, if "corrective measures" were instituted to conserve British interests, similar measures on the part of the United States would, as a matter of course, be instituted by the United States. I made it clear to Sir Robert that our respective countries were on common ground in insisting, in the Far East as elsewhere, on the observance of certain fundamental rules in the conduct of international relations, that both nations are party to a treaty which was intended to safeguard their rights and interests in China⁸⁹ and are,

⁸⁷ Latter not printed.

⁸⁸ Not printed.

⁸⁹ Signed at Washington, February 6, 1922, *Foreign Relations, 1922*, vol. I, p. 276.

therefore, equally concerned over the assaults being made on the integrity of that treaty, and that there are certain specific questions, such as freedom of navigation on the Yangtze River and trade restrictions in north China, in which our two nations have a common concern. I could not, however, agree that our respective interests, both political and economic, in the Far East are relatively of equal importance. I pointed out that British policy envisaged the permanent retention of territorial possessions in the Far East, whereas it is the policy of the United States to grant independence to the Philippine Islands on a date fixed in the not distant future, that the returns on British investments and enterprises in China form an important item to set off against Great Britain's large adverse trade balance, whereas returns from American investments and enterprises in China are comparatively small and are not needed to balance American foreign trade, which usually shows an export surplus; and that, if the question of using corrective measures were to be considered chiefly on the ground of expediency, I could not recommend to my Government an affirmative decision.

Sir Robert has now moved over to the new and more comprehensive argument of the maintenance of the sanctity of treaties and other principles of orderly international relations. He acknowledges an element of risk in a policy of sanctions but holds that risk of war is slight if the matter is "properly handled"; that such risk as there is arises from possible irresponsible action by younger officers and reactionary elements, and then only if the matter is mishandled (as by ill-timed publicity). He indicates "that the anticipation by Japan of increasing pressure upon her would cause her to moderate her policy long before pressure reached its maximum effect."

I submit that the issue is far too huge to warrant risking its success on the vagaries of irresponsible younger officers or reactionary Japanese (of which a supply is always on hand), or on the silence of newspaper men.

In connection with the clause above-quoted from Sir Robert's telegram to the British Foreign Office, we have pointed out to the British Embassy that if sanctions were to be imposed for the purpose of preserving the sanctity of the Nine-Power Treaty, it did not seem to us that the purpose of such measure would have been accomplished by "moderation" by Japan of her policy to the extent of, say, removing restrictions on third-party trade with China.

The British Embassy, in urging pressure against Japan to force abandonment of the program in China, advises that the way be left open for a face-saving cover to Japanese submission. In our opinion this advice reflects a grave misconception of the part which the China hostilities occupy in the mind of the Japanese nation. The nation is engaged in the greatest collective effort of its history, the cost already

has been terrific, and although quick complete victory has not been attained the people still expect success. A settlement bringing only nominal gains would be unacceptable and impossible of imposition upon the public by misrepresentation. A return to anything approaching the status which existed before the hostilities is unthinkable except as the consequence of national exhaustion, and the state of the nation is still far short of the degree of exhaustion without which acceptance of frustration is inconceivable.

My British colleague interprets Japanese policy as based on an assumption that the United States and Great Britain will not take joint action. That there is a clear difference between the Japanese attitude toward Great Britain and the Japanese attitude toward the United States seems to us undebatable; but we do not find its explanation primarily in a desire on the part of Japan to keep the United States and Great Britain apart. In our opinion a recognition that involvement in the Far East is fundamentally different as between the United States and Great Britain is the basic explanation. When the Japanese assert that foreign rights and interests in China will be respected but political machinations not tolerated, their thought is not in all respects clear; but it is clear enough to make it evident that difficulties must arise not so much with the United States as with the British Empire, the Asiatic ties of which patently involve political entanglements. With China itself the interests of the British Empire have led Great Britain in the past to assume an attitude involving far deeper political implications than have been comprised in American policy in China. Japan, of course, has noted the contrast. As toward Great Britain she apprehends that a frontal conflict of interest may be unavoidable; as toward the United States she hopes that a policy of solving differences one by one as they arise will be adequate to the maintenance of tolerable relations.

Respectfully yours,

JOSEPH C. GREW

894.24/6351

Memorandum by Mr. Roy Veatch, of the Office of the Adviser on International Economic Affairs

[WASHINGTON,] March 21, 1939.

SOME PRO AND CON CONSIDERATIONS WITH RESPECT TO THE PROPOSED
RESTRICTION OF EXPORTS OF SCRAP IRON AND STEEL

Pro:

1. The great expansion of exports during the past few years to Japan, Italy and Germany.
2. The rapidly arising proportion of total exports of scrap going to these countries.

3. The unquestioned effect that these supplies of scrap have been of material assistance in stepping up the armaments industries in these countries.

4. The fact that the United States is the principal large scale market for such scrap; in some cases there has been no surplus for export due to heavy domestic demand and in other cases legislative restrictions have been imposed on exports.

Con:

1. A prohibition or radical restriction of the exportation of scrap iron might prove to be of some embarrassment to Japan, Italy and Germany but it is not probable that their armament industries would be crippled by this action alone. It is probable that there would be little serious effect on the industries in Italy and Germany. In the case of Japan, American scrap has formed one of the principal raw materials for the iron and steel industries. It is probable, however, that if this resource were cut off Japan would be able to turn to other sources of basic materials for her industry. To a great extent scrap iron and pig iron are interchangeable in the manufacture of steel and it is probable that Japan's first recourse, if scrap iron supplies are cut off, would be to increase the importation of pig iron. The Japanese industry already imports very large amounts of pig iron from abroad, including during the last two years very heavy supplies from the United States and unless these foreign sources of pig iron were cut off at the same time that shipments of scrap iron were prohibited or restricted, the Japanese industry would be embarrassed to the extent that slightly higher expenditures might be required for pig iron. Should foreign sources of pig iron be restricted at the same time then it is probable that Japan would seek to increase her imports of iron ore, principally from Burma, Malaya and the Netherlands East Indies, her best present sources of supply. Should increased shipments from these sources prove unobtainable then the next recourse of Japanese industry probably would be the utilization of the extensive low grade iron ore resources in Manchukuo, Korea and Japan proper, and at the same time an attempt to import larger quantities of semi-manufactured iron and steel products. It is understood that the processing of the low grade iron ores and iron sands of Japanese controlled territory would be relatively expensive and of course semi-manufactured products would cost more than scrap iron and pig iron which could be manufactured by existing plants in Japan. The probable effect of restrictions on foreign supplies of raw materials for the Japanese iron and steel industry would appear, therefore, to be merely an increase in the cost of supplying necessary munitions rather than an actual stoppage of such munitions; should Japan be unable to secure as large amounts of iron and steel products as formerly, she probably

would be driven to the expedient of limiting even further the amounts of iron and steel allotted to nonmilitary uses, maintaining thereby the necessary supplies for the army and navy.

2. The prohibition or restriction of the export of iron and steel scrap would be largely ineffective as a means of "stopping" Japan unless there were similar restrictions upon the supply of raw materials for the iron and steel industry from other foreign sources and also upon the supply of other vital raw materials such as petroleum, copper and nickel.

3. Should action be taken to restrict exports of iron and steel scrap only there would be ground for the charge of discrimination against the scrap industry. There is no logical reason why this product should be singled out for restriction; there is just as much reason for prohibiting the export of pig iron and semimanufactured iron and steel products, of petroleum and petroleum products and of copper, to Japan or other "aggressor" countries. It is obvious that public attention has been focused upon exports of iron and steel scrap largely as the result of a propaganda campaign initiated by the independent steel producers three or four years ago with the objective of removing price competition for scrap, one of their principal raw materials.

4. Legislation restricting the export of scrap as a means of bringing economic pressure upon Japan and the Rome-Berlin axis no doubt would encourage a number of industries to demand similar restrictions on exports of raw materials which they require and also the demand by manufacturing industries for restrictions upon the importation from these countries of competing commodities. Furthermore, it may be taken for granted that Japan and the other countries involved would retaliate against American trade in other commodities wherever possible. In other words, action along these lines runs counter to the commercial policy of this Government and its foreign trade interests and should be taken only if there is conclusive reason for such action in support of our foreign policy or the national defense.

5. For these and other reasons the interested executive departments including the Department of State have opposed legislation along these lines on a number of occasions during the past two or three years.

R. V. BETCH

793.94/148181

Memorandum by Mr. George F. Luthringer, of the Office of the Adviser on International Economic Affairs, to the Adviser (Feis)

[WASHINGTON,] April 5, 1939.

MR. FEIS: As I understand the attached note from Tokyo,⁹⁰ its leading argument is that sanctions would destroy the capitalist system in

⁹⁰ See memorandum by the Ambassador in Japan, March 13, p. 516.

Japan but that the Japanese people would accept this as well as a considerable reduction in their standard of living rather than forego the present Japanese objectives and policies with reference to China. This, in my opinion, by no means demonstrates that some type of socialism or fascism will enable the Japanese to acquire necessary raw materials or to avoid the drastic physical overhauling and rebuilding of their economy that would follow the application of sanctions. To what lines of productive work would many of the people engaged in silk production and the manufacture of cotton textiles be shifted? Could Japan obtain sufficient iron and non-ferrous metals to keep her metallurgical industries operating? How would Japan pay for goods imported from the "yen-bloc"? She has in the past paid for part of these by goods made from raw materials imported from non-yen-currency countries.

In other words, I do not believe that a mere alteration of the social or political framework within which the Japanese economy operates would necessarily solve the basic economic problems that would follow from effective sanctions. It is, of course, almost certain that sanctions would cause a serious reduction in the Japanese standard of living, and I am willing to concede that the Japanese population would accept this. However, the transitional period during which these adjustments were taking place would involve hardships much greater than after readjustment had occurred. It seems to me that the strain of suddenly and drastically readjusting a nation's economy, together with a simultaneous attempt to carry on a costly foreign war, might well gravely impair military efficiency and strain an economy to the point of collapse, no matter what its social and political framework.

It is of course possible that the Japanese might be able to weather an economic upheaval of this magnitude without finding it necessary to withdraw from China. Russia transformed her economic system and at the same time overcame civil war and foreign intervention. Nevertheless, it seems to me that the strains and difficulties involved are so great that to argue that the problem can be reduced to a willingness to accept a decline in the standard of living is an oversimplification that gives a very misleading impression of the consequences of effective sanctions. In my opinion, there is at least an even chance that Japan would be so weakened by sanctions that she would have to withdraw from China or greatly modify her present objectives.⁹¹

⁹¹ Mr. Feis added notation as follows: "Perhaps—or more likely choose a favorable time to acquire Dutch possessions."

793.94/14951

The Chinese Embassy to the Department of State

AIDE-MÉMOIRE

The Chinese Government, in its sincere desire to be associated with the democratic nations in their imminent struggle against the aggressor nations, has recently proposed to the British and French Governments the following principles of co-operation in the Far East:—

I. China, Great Britain and France, in their military and economic co-operation in the Far East, should, at some suitable time, invite Soviet Russia to participate in the co-operation and notify the United States of America with the request that it undertake parallel action, so that co-ordinated steps may be taken against Japan for the maintenance of their interests in the Far East.

II. The Powers participating in the war against Japan must not negotiate separately and individually an armistice or peace with the enemy.

III. On the military side, China promises to supply to her capacity the fighting forces, the man-power and the natural resources; while the other Powers promise to send as much as possible their naval and air forces to participate in the joint warfare in the Far East. The participating Powers shall each appoint one military representative with full powers to discuss, decide upon and carry out the details of planning and execution.

IV. On the economic side, the participating Powers promise to mutually maintain as far as possible their respective currencies and commerce. They shall each appoint one economic representative with full powers to discuss, decide upon and carry out the details of planning and execution.

The French Government, in promising to give consideration to these proposals, has suggested that any such plan must be discussed with the Government of the United States of America.

The British Government replied on April 12, 1939, to the effect that it did not deem the present situation in the Far East as having developed to such a stage that it could profitably consider these proposals of the Chinese Government; and that the British Government, in dealing with the general political and international situation, would give the matter close attention.

The Ambassador is instructed to communicate these proposed principles of co-operation to the Government of the United States of America for its consideration. It is the earnest hope of the Chinese Government that, should the occasion arise, the American Government would use its great influence in helping to realize such an international co-operation in the Far East.

WASHINGTON, April 14, 1939.

793.94/14951

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] April 15, 1939.

The Chinese Ambassador⁹² called to see me this morning and handed me the *aide-mémoire* attached to this memorandum.⁹³ The Ambassador said that he had received the first part of this *aide-mémoire* from his Government some days ago and that in order to assure himself that the text and translation were similar to that used by his colleague in London, he had cabled the latter and the latter part of the *aide-mémoire* handed to me came from the Chinese Ambassador in London.

After I had read the *aide-mémoire* I said that, as the Ambassador would understand, I could not at this time make any comment upon it as I would first have to consult the Secretary of State. I asked the Ambassador, however, if he would be good enough to explain to me what was meant by the phrase "parallel action" in the first point of the *aide-mémoire*. The Ambassador said that his interpretation of this phrase was that the Chinese Government did not propose that the United States take any military action in conjunction with China, Great Britain and France against Japan, but was intended to imply the hope that should China, Great Britain and France engage in military action against Japan, the United States would support such action by economic or financial measures.

I told the Ambassador that I should be glad to see him next week after I had consulted with the Secretary of State.

S[UMNER] W[ELLES]

793.94/14901 : Telegram

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

PARIS, April 18, 1939—1 p. m.

[Received 1:05 p. m.]

765. The Chinese Ambassador Wellington Koo asked to see me this morning and made the following statements to me.

On the 29th day of March, under explicit instructions from his Government, he had called on Léger, Secretary General of the Ministry for Foreign Affairs, and had made a series of verbal proposals on behalf of the Chinese Government. On the same day the Chinese Ambassador in London had made similar proposals to the British Government.

⁹² Hu Shih.

⁹³ *Supra*.

Léger had requested him to present the proposals in written form and he had given Léger a confidential memorandum containing them on April 4th. The British Government had not asked for a written proposal but had taken note in writing of the statements of the Chinese Ambassador in London.

Koo then gave me a copy of the memorandum which he had presented to Léger on April 4th.

Inasmuch as it seems to be of the highest importance that these proposals should be kept secret, I cannot telegraph them in a non-confidential code and it would be improper to repeat a written proposal of another government in a confidential code. I will therefore send you a copy of the memorandum in question by pouch tomorrow,⁹⁴ and submit herewith summary.

The opinion is expressed in the memorandum that Japan is attacking China not only to conquer China but also to eliminate and destroy all influence and interests in the Far East of other powers. The war between China and Japan is regarded as an integral part of the effort of the totalitarian states to overwhelm the democracies.

In the event of war in Europe it is believed that Japan will attack the territorial possessions of France and Great Britain in the Far East.

The Chinese Government proposes in view of the threat of war in Europe that there should be immediate practical consultation between the French, British and Chinese Governments for joint action in the Far East against Japanese aggression and offers to collaborate fully in the preparation of a plan.

For the purpose of facilitating discussion the Chinese Government presents the following concrete proposals to the French Government.

[Here follows substance of the four proposals, contained in the *aide-mémoire* from the Chinese Embassy to the Department of State, April 14, page 525.]

When I had read the memorandum I said to the Chinese Ambassador that a most important point seemed to me obscure. The memorandum seemed to be based on the assumption that England and France were already at war with Japan. As this was not the case I should be glad to know why the memorandum had been drawn in this form.

The Chinese Ambassador replied that the entire memorandum was based on the premise that war certainly would break out in Europe and would be followed by a Japanese attack on British and French possessions in the Far East. The Chinese Government was proposing engagements to be taken in advance of war to become effective only in case of war.

⁹⁴ Notation on margin: "Letter to the Secretary of State April 18, 1939"; not found in Department files.

In conclusion the Chinese Ambassador said that General Chiang Kai Shek and all the members of the Chinese Government were most hopeful that the President might use his influence to promote favorable consideration of this proposal by the French and British Governments. He went on to say that on the 12th of April he had called on Léger to ask for the opinion of the French Government with regard to the proposals contained in his memorandum of April 4. He had received the reply that owing to intense preoccupation with affairs in Europe it had been impossible for the French Government to give the Chinese proposal proper consideration.

The Chinese Ambassador in London had received nothing but the reply that the British Government regarded the proposal as intensely interesting and the promise that it would be given careful study.

The Chinese Ambassador ended his conversation by remarking that he had come to see me because he had received a communication from Chiang Kai Shek instructing him to ask me to assist him in furthering the project.

BULLITT

793.94/14902 : Telegram

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

PARIS, April 18, 1939—6 p. m.

[Received April 18—2:23 p. m.]

770. I asked Léger this afternoon if he had replied to the memorandum presented to him on April 4th by the Chinese Ambassador (referred to in my 765, April 18, 1 p. m.). He replied that he had as yet given no answer to the Chinese Ambassador but that the British Government had replied last night to the similar *démarche* made by the Chinese Ambassador in London.

The British had said that they would be unwilling to enter into any agreement now with the Chinese Government based on the hypothesis that if Great Britain should become involved in war in Europe Japan would attempt to seize British possessions in the Far East. The British Government had stated further to the Chinese that they had hopes that the presence of the American Fleet in the Pacific might prevent a Japanese attack on British possessions in the Far East.

In case Japan should attack British possessions in the Far East and in case no assistance from the United States should be forthcoming, the British Government had decided that they could bring no assistance to their possessions in the Far East until the successful conclusion of war in Europe.

Léger went on to say that the French reply to the Chinese Government would be along the same lines. I then suggested to him that it was most unfair for the French Government to continue to place a

transit tax of 4% on goods destined for the Chinese Government in transit through French Indo-China. (See my 766, April 18, 2 p. m.)⁹⁵ He agreed this was stiff; but added that the justification for it was that Indo-China was compelled at the moment to rely on its own revenues for its defense.

Léger added that the French Government had cut off all deliveries of iron from French Indo-China to Japan after the seizure of the Spratley Islands by Japan.⁹⁶ This measure was proving to be ruinous to the finances of Indo-China and to the welfare of the local population. Moreover, the Japanese were obtaining the iron they needed from British possessions in the Malay Peninsula.

The French Government therefore had proposed to the British Government that this source of supply to Japan should be cut off. The British Government had replied that this could be done easily by raising the export tax on this iron but had added that it could see no utility in cutting off exports of iron from these French and British possessions so long as Japan could obtain all the supplies of iron she might need from the United States.

Léger said that he had been informed that the British Government was about to ask the Government of the United States if something could not be done to cut off supplies of iron from the United States to Japan.

We then had some discussion of the problem of bringing pressure to bear on Japan, Germany and Italy by buying through joint action by the French, British and American Governments certain essential war materials. I venture to suggest that this question is worth studying.

BULLITT

894.24/648

*Memorandum of Conversation, by the Chief of the Division of European Affairs (Moffat)*⁹⁷

[WASHINGTON,] April 19, 1939.

I asked Mr. Mallet, Counselor of the British Embassy, to call this afternoon and explained that we have received information from Paris⁹⁸ to the effect that since the seizure of the Spratley Islands France has cut off all deliveries of iron from French Indo-China to Japan. The French, however, are upset about this as it is seriously affecting the finances of Indo-China, and the Japanese are meanwhile obtaining the necessary iron from the Malay Peninsula. The French,

⁹⁵ *Post*, p. 665.

⁹⁶ See pp. 103 ff.

⁹⁷ Notation on original: "Copies sent to London, Paris & Tokyo." The copy to Paris was sent as enclosure to Department's instruction No. 1455, May 1 (not printed).

⁹⁸ Telegram No. 770, April 18, 6 p. m., *supra*.

therefore, suggested to the British Government that this source of supply be cut off. The British apparently replied that they didn't see any use in cutting off iron exports from British or French possessions so long as Japan could obtain all the supplies of iron she might need from the United States. The French understood that the British were about to ask the U. S. A. if something could not be done to cut off supplies of iron from the United States to Japan.

The purpose in asking Mr. Mallet to call was to suggest to him that it might be inadvisable for the British to make such an approach. In the first place, we would have to reply that the matter would receive study from the point of view of our own independent interests: that we had always pursued an independent course, which though it often happened to parallel the course of other Powers, could not be in the nature of joint action. More important, however, was the fact that if, as seemed probable, legislation looking toward an embargo of certain types of steel and iron scrap were introduced by Senator Pittman⁹⁹ it would be helpful to this Department to be able to say that it had not been approached on the matter by Great Britain or any other foreign power.

Mr. Mallet replied that he had heard nothing whatsoever about the matter, and was inclined to doubt whether the British were planning to make us this request. However, in view of the intimation I had just given him, he would see that it were stopped, as the last thing the British Government wished to do at the moment was to embarrass us in any way.

PIERREPONT MOFFAT

611.946/429

*Memorandum by Mr. Joseph M. Jones of the Division of Far Eastern Affairs*¹

[WASHINGTON,] April 20, 1939.

THE MATTER OF AN IMPORT AND EXPORT EMBARGO AGAINST JAPAN*

It is the principal object of this memorandum to consider the question from a technical point of view of how effective the imposition of import and export prohibitions against Japan by the United States and possessions (except the Philippines), the United Kingdom and possessions (except the Dominions and India), France and possessions, and the Netherlands and possessions, might be expected to be in impairing Japanese economy and in forcing Japan to abandon her

⁹⁹ Chairman of the Senate Committee on Foreign Relations.

¹ Copy transmitted to the Embassy in Japan.

* Limitations of time and assistance were such that some of the tables in this report could not be checked and may contain a small margin of errors. [Footnote in the original.]

plans for the conquest of China. Consideration of the advisability of adopting such a policy is not within the scope of this report.

The possessions mentioned in the foregoing group are only those whose economic policies are controlled by the mother countries specified. The entire group will be hereafter referred to as Group A. The British Dominions and India and the Philippines were studied as a separate group, hereafter to be referred to as Group B, whose economic action probably can be influenced to some degree by the mother countries. The Netherlands and possessions were included in Group A because in the realm of practical international action economic sanctions against Japan could not be envisaged without the cooperation of the Netherlands: Dutch India is an important market for Japanese goods and a very important source of raw materials, notably oil, tin and rubber. An embargo on the shipment of vital raw materials to Japan might be impaired without the cooperation of the Netherlands. Further, if an import embargo were so effective as to exhaust Japan's ability to purchase raw materials, it is not improbable that the Japanese Navy would attempt to seize some of the necessary supplies in Netherlands India; and for this reason a prearrangement for the protection of that country should be considered as a vital part of the program.

Conclusions

An import embargo enforced by Groups A and B against Japanese goods would probably oblige Japan to dispose of her foreign exchange resources at a rate of approximately 105,000,000 yen per month. EA² estimates Japan's total foreign exchange reserves at the end of 1939 to be not more than 1700 million yen (see EA's memorandum entitled "Japanese Gold and Foreign Exchange Resources"³). On this basis Japan might be expected to hold out for about 16 months even were Japanese goods embargoed by Groups A and B.†

Administrative difficulties involved in the enforcement of a general import embargo are extensive and complex but there is no reason to believe that they are insuperable.

An export embargo on shipment to Japan of essential commodities, enforced by Groups A and B, involves greater difficulty and promises results less certain than has generally been supposed.

There are several important sources of oil outside Groups A and B and commercial stocks in Japan are believed to be ample for at least six months, while the Japanese Navy has on hand at least a three years' supply. There seems to be no doubt that an embargo on oil would decrease Japan's military and industrial efficiency after the

² Office of the Adviser on International Economic Affairs.

³ Not found in Department files.

† The dollar figures in EA's report are converted into yen for the purposes of this report at \$1.00 - 3.50 yen. [Footnote in the original.]

exhaustion of her commercial stocks, but under the stress of an embargo Japan might be enabled to obtain a substantial portion of her requirements from outside Groups A and B.

Japan's greatest vulnerability would appear to be her shortage of iron, due to the concentration of iron in the Pacific area in Groups A and B, and the sharp competition for Europe's production. An embargo on iron ore and all forms of iron enforced by Groups A and B would probably eventually be disastrous to Japan but it is probable that the effects of an embargo on iron would not be critically felt in Japan for some time.

Japan could probably not obtain sufficient supplies of tin outside Groups A and B unless she occupied the Province of Yunnan, China. Adequate supplies of rubber are not obtainable outside Groups A and B. An embargo on lead, copper and zinc by Groups A and B would undoubtedly embarrass Japan's industrial operations to a certain extent but would not affect Japan disastrously as substantial supplies could probably be obtained in an emergency.

An embargo on automobiles and parts would probably reduce Japan's industrial and military efficiency but it would by no means cripple Japan's motor transportation in view of local production and the possibilities of supplies from Italy and Germany. The same may be said of machinery and parts.

Supplies of pulp could probably be obtained outside of Groups A and B and it is probable that supplies of cotton adequate for Japan's sharply reduced needs (in case an import embargo were enforced at the same time) could be found outside of the yen bloc (notably Brazil).

It is probable that Japan's present economy could not withstand the combined effects of an import and export embargo enforced by Groups A and B. The tremendous shock which that economy would sustain from a simultaneous loss of export markets and sources of raw materials would probably necessitate immediate state control and operation of industry and trade. Ambassador Grew appears to believe that the Japanese people would accept the disappearance of the existing economic order without withdrawing their allegiance to those who are directing and who would continue the campaign in China. This judgment need not be questioned, but there is little doubt that the immediate social and economic confusion and distress engendered by the simultaneous imposition of import and export embargoes would be so great as to reduce drastically the effectiveness of Japan's military and economic penetration of China, or even to check it entirely for a considerable period. Millions of industrial workers, farmers, stevedores, fishermen, et cetera, would be deprived of their incomes and a country's distribution system cannot be reorganized on a different basis without a considerable period of social and eco-

conomic confusion and distress. Provided the initial shock were withstood and the Japanese people remained loyal during the long period of reorganizing the production and distribution system, it is probable Japan could carry on for a considerable period of time. There would appear to be no doubt, however, that if Groups A and B strictly enforced import and export embargoes for a sufficient period of time, the continued and cumulative effects would eventually so reduce the efficiency of the Japanese industrial and military machine as to force some drastic change in either Japan's foreign policy or internal leadership, or both.

In this connection, if an import or export embargo should be enforced against Japan and if these measures should embarrass Japan's industrial or military operations appreciably, it seems probable that Japan would make an attempt to seize forcibly the materials that she needs.

[Here follows detailed discussion of subject.]

894.24/652a : Telegram

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

WASHINGTON, April 27, 1939—5 p. m.

113. Press flashes this noon state that Senator Pittman has introduced a bill⁴ which would authorize the President to place restrictions upon trade and commerce between the United States and any violator of the Nine Power Treaty of 1922; also that the Senator said that his plan was drafted "By me alone, and no one else knows anything about it."

At his press conference today, the Secretary, when asked for comment, said that he had no knowledge of the matter until he saw the news flash; that he had not had any conference on the subject; and that he thought that Senator Pittman had made it clear in the statement which accompanied his introduction of the bill that the bill was his own individual product.

HULL

793.94/14951

*The Department of State to the Chinese Embassy*⁵

The Chinese Embassy's *aide-mémoire* of April 14 relating to proposed principles of cooperation in the Far East has been read with care.

⁴ S. J. Res. 123, *Congressional Record*, vol. 84, pt. 5, p. 4821.

⁵ Read as an oral statement and handed to the Chinese Ambassador on May 1 by the Adviser on Political Relations.

It is believed that the Chinese Embassy is fully aware of this Government's attitude on the subject of cooperation and parallel action. Clear indications of this attitude are given in the texts of documents which have been released to the press by the Department of State and by the White House.

611.946/425 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 2, 1939—noon.

[Received May 2—7:30 a. m.]

303. The local press has given prominence to reported resolution introduced by Senator Pittman which would authorize the President to restrict trade with countries violating the Nine Power Treaty. The British Ambassador informed me May 1 that the Minister for Foreign Affairs,⁶ acting apparently on the assumption that this or a similar measure will be enacted by Congress, has urged him try to introduce the British Government to initiate some step by the League of Nations to bring about similar action by League members. Foreign Office officials as also the British Ambassador have asked me whether there is any probability that the resolution in question will be adopted and I have pointed out the impossibility of making any prediction.

Repeated to Peiping.

PECK

793.94/14946 : Telegram

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

PARIS, May 3, 1939—5 p. m.

[Received May 3—1:55 p. m.]

874. The Chief of the Far Eastern Division at the Foreign Office⁷ in a conversation today with Wilson⁸ referred to the memorandum presented to Léger on April 4 by the Chinese Ambassador (see my 765, April 18, 1 p. m. and 770, April 18, 6 p. m.) and said that a reply had been made to the Chinese Ambassador to the effect that the French Government regarded the Chinese proposal as most interesting but that it seemed premature to give consideration at the present time to entering into any such agreement.

Chauvel added that in the view of the French Government it would be unwise to reply to the Chinese proposal by a categorical refusal.

⁶ Wang Chung-hui.

⁷ Jean Chauvel.

⁸ Edwin C. Wilson, Counselor of Embassy in France.

There were, in true oriental fashion, secret discussions going on more or less constantly between agents of Chiang Kai Shek and the Japanese Government concerning peace terms. If the British and French Governments should turn down flatly the Chinese proposal, Chiang Kai Shek might become discouraged and inclined to listen too favorably to the Japanese peace propositions.

In view of the present world situation any such development in the Far East would be regarded by the French as distinctly unfortunate.

As indicating that the French intend to keep the Chinese "dangling" regarding the Chinese proposal, it was mentioned that Wellington Koo saw Léger yesterday and discussed the proposal with him for over an hour.

With reference to cutting off deliveries of iron from French Indo-China to Japan, Chauvel said that strong protests had come in from Indo-China where laborers were being thrown out of work and local revenues reduced. The Ministry of Colonies was now considering whether it would be feasible to maintain this embargo in effect; if they decide in the affirmative, then the French Government having ascertained that the British Government could cut off supplies of iron from Malaya to Japan by raising the export tax would approach the United States Government to inquire if it would be possible to cut off supplies of iron from the Philippine Islands to Japan.

BULLITT

894.24/654 : Telegram

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

WASHINGTON, May 5, 1939—5 p. m.

337. Your 874, May 3, 5 p. m., last paragraph. The Department desires that in your discretion you endeavor to discourage proposed approach by inviting attention of appropriate quarters to considerations mentioned in the penultimate paragraph of enclosure to the Department's instruction no. 1455 of May 1.⁹

HULL

711.942/1704

Memorandum by the Assistant Secretary of State (Sayre) to the Secretary of State

[WASHINGTON,] May 11, 1939.

MR. SECRETARY: You will remember that I spoke to you some weeks ago about the question of terminating certain articles in our Treaty of Commerce and Navigation of 1911 with Japan.¹⁰ The obligations

⁹ See footnote 97, p. 529.

¹⁰ Signed February 21, 1911, *Foreign Relations*, 1911, p. 315.

under Articles V and XIV of this Treaty constitute what amounts to a one-sided obligation imposed upon this Government, in as much as it guarantees most-favored-nation treatment with respect to tariffs, but leaves the broader obligation of general commercial most-favored-nation treatment undefined in so far as the newer economic devices of quota restrictions, exchange control, and similar practices are concerned. In other words, the provisions of the Treaty of 1911 are quite obsolete and should be replaced by more modern provisions. The existing Treaty would prevent the United States from taking various actions such as export embargoes or tariff discriminations against Japan, whereas it does not prevent Japan from discriminating against American trade in China nor does it prevent discrimination in Japan through exchange control measures in a most flagrant way.

From the viewpoint of commercial policy, it seems clear that the old Treaty should be either done away with or replaced by new and more modern provisions. In a meeting of representatives of the various Divisions concerned, I believe that all unanimously agreed to this conclusion.

Since the meeting, however, Senator Pittman has, as you know, introduced a resolution on April twenty-seventh, giving the President authority to embargo exports to or imports from a country violating the Nine Power Treaty. In view of this development, the Far Eastern Division feels that a move at this time to modernize the Treaty would have political repercussions and that we therefore should do nothing at this time.

In my own opinion there are strong arguments for going forward now with the modernization of the 1911 Treaty. This could be done by first talking the matter over with Senator Pittman and suggesting to him that he defer pressing any action on his resolution until after we have a chance to clear up the old Treaty. I think it is plain that no action could be taken under the Pittman resolution without violating the present provisions of the 1911 Treaty. What I fear is that if we do nothing action may be pressed on the Pittman resolution and, if the Senate is then informed that the 1911 Treaty prevents taking action under the Pittman resolution, the Senate may consider or pass a resolution directing the President to denounce the 1911 Treaty. Such a resolution would doubtless be accompanied by inflammatory remarks which, it seems to me, would be very unfortunate and would certainly increase the political embarrassment likely to attend any attempt by us at that time or later to revise the 1911 Treaty. The wiser course, therefore, seems to me for the State Department, after conferring with Senator Pittman, to approach the Japanese Government, asking them to agree to negotiate a new treaty eliminating Articles V and XIV of the old Treaty of 1911. As you will recall from my earlier discussion with you, it is contemplated that if the

Japanese desire to negotiate more modern provisions we would be prepared to enter into an informal *modus vivendi* along the line of the Italian commercial agreement¹¹ adapted to Far Eastern circumstances and, if conditions warranted, in time to embody such provisions in actual treaty form. This proposal is embodied in the *aide-mémoire* appended hereto.¹²

There is a conflict of opinion in the different Divisions of the Department. Mr. Hamilton of the Far Eastern Division feels it unwise to move at this time. Mr. Hawkins of the Trade Agreements Division feels, on the other hand, that we ought to move forward so as to rid ourselves of the obligations of the Treaty of 1911 which in effect operate unilaterally against us.

F[RANCIS] B. S[AYRE]

611.9431/176½

Memorandum by the Legal Adviser (Hackworth) to the Secretary of State

[WASHINGTON,] May 26, 1939.

I attach Mr. Baker's memorandum of May 17, 1939,¹³ regarding discrimination by Japan against American trade and commerce in China.

I should suppose that the Congress in enacting Section 338 of the Tariff Act¹⁴ had in mind discrimination by a country in its own territory. The situation with respect to occupied territory such as exists in China being so unusual was probably not thought of at the time the section was under consideration. Yet, the terms of the section are broad enough to cover the Sino-Japanese situation if it should be deemed desirable to invoke the section.

Article V of the treaty of 1911 with Japan would seem to prevent this Government from prohibiting the importation of Japanese goods. The protocol attached to the treaty of 1911 and the tariff provisions in the treaty of November 22, 1894 referred to therein, impose a like prohibition. These latter provisions also prohibit the imposition of higher duties on articles the produce or manufacture of the territories of Japan, than are imposed on like articles imported from any other country. (1 *Treaties, Conventions, etc.* (Malloy, 1910) 1028, 1030-31).

It would therefore seem desirable to get rid of the treaty of 1911 as a preliminary step to resorting to Section 338 of the Tariff Act of 1930.

GREEN H. HACKWORTH

¹¹ Signed at Rome, December 16, 1937; 51 Stat. 361.

¹² Draft not printed.

¹³ Not printed.

¹⁴ Approved June 17, 1930; 46 Stat. 590, 704.

751.93/62

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] June 5, 1939.

The French Ambassador called. He referred to his call on Mr. Welles on June 1¹⁵ and to the suggestion made by Mr. Welles that he take up in detail with me the document which he had received from his Government covering proposals made by the Chinese Government to France and Great Britain for reciprocal military collaboration. The Ambassador said that he assumed that we had already been informed of the approach made by the Chinese to the French and British Governments on this subject. I replied in the affirmative. He then said that it was the thought of the French Foreign Office that it would be unwise for the French Government to return a categorical negative to the Chinese proposal for fear that such a rejoinder might serve to discourage the Chinese; and that the French Foreign Office thought it advisable therefore to continue the conversations on the subject with the Chinese Government. The Ambassador said that the French Foreign Office had made reply to the Chinese proposal to the general effect that consideration might preferably be given at this time to specific proposals which might be offered to cover specific contingencies.

The Ambassador asked me whether the Chinese Government had approached us on the subject with the suggestion that the United States take, in the contingency of a European war, parallel action. I replied in the affirmative. The Ambassador then asked what reply we had made to the Chinese. I said that we had made a brief informal and oral reply to the Chinese Ambassador here to the general effect that the Chinese Embassy was aware of this Government's attitude on the subject of parallel action and cooperation, as clearly set forth in numerous public statements by high officers of this Government.

M[AXWELL] M. H[AMILTON]

893.51/6933

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] June 5, 1939.

The French Ambassador called. He said that he understood that the Department had received from the British Foreign Office a statement of the British Foreign Office's views in regard to the question of the advisability of utilizing economic and financial pressure against

¹⁵ Memorandum of conversation not printed.

Japan.¹⁶ I expressed some surprise and said that I knew of nothing new on this subject. The Ambassador then said that he understood that a number of months ago, perhaps last November, the Department had made inquiry of the British Foreign Office in regard to this matter and that the British Foreign Office in response to this inquiry had presented to the Department its views. I then said that I had gained the impression from the Ambassador's first statement that there had been some recent development in this regard and that I recalled the statement which had been communicated to the Department by the British some months ago. The Ambassador continued that the British Foreign Office had taken the matter up with the French Foreign Office and that as a result of the British approach the French Foreign Office had undertaken a study of the subject. The Ambassador said that in the study made by the French Foreign Office attention had been given to various economic and financial measures which might be taken; ¹⁷ that toward the end of its study the French Foreign Office made a number of observations: first, it was the impression of the French Foreign Office that the credits which had been extended to China had not been used by China with maximum effectiveness; second, the French Foreign Office considered that coordination of measures and of effort was highly desirable; and third, the French Foreign Office considered that solidarity among the various powers was highly important toward ensuring the success of any measures which might be adopted. The Ambassador said that in the study made by the French Foreign Office attention had been given to the attempt to apply economic measures against Italy during the Italian-Ethiopian trouble. The Ambassador said that that attempt showed that coordination and solidarity were very important. The Ambassador said also that the French Government had imposed an embargo against exports of iron from French Indochina to Japan but that the French Government had subsequently removed the embargo in the light of the fact that the French Government had observed that Japan's inability to obtain iron from French Indochina had caused Japan merely to deflect its purchases to British Malaya and to some extent to the Philippine Islands. The Ambassador said that the conclusion of the study made by the French Foreign Office was to the general effect that the French Foreign Office had nothing particular in mind at the present time but was of the opinion that there was definite need of proceeding with coordination of measures of financial aid to China.¹⁸

¹⁶ See *aide-mémoire* from the British Embassy, January 25, p. 490.

¹⁷ See also pp. 636 ff.

¹⁸ The Adviser on Political Relations (Hornbeck) on June 7 reminded the Secretary and Under Secretary of State that "You are already familiar with my views that, as between policies envisaging aid to China and policies envisaging withholding of aid from Japan, the former are preferable".

I thanked the Ambassador for his courtesy in furnishing us this outline of the study made by the French Foreign Office on the subject indicated.

M[AXWELL] M. H[AMILTON]

894.51/639: Telegram

The Secretary of State to the Minister in Switzerland (Harrison)

WASHINGTON, July 1, 1939—3 p. m.

37. Your 56, June 29, 11 a. m., and the Department's instruction no. 711, May 31, 1939,¹⁹ enclosing a copy of a memorandum of conversation²⁰ setting forth the Department's attitude in regard to the extension of credits to Japanese agents.

The Department desires that, unless you perceive objection, you convey to the appropriate Swiss authorities orally and in confidence the Department's views as set forth in the enclosure to the despatch under reference. You may add that so far as the Department is aware there have been no substantial deviations by American bankers from the policy desired by the Department. You may add further that we believe the attitude of the British Government to be similar to our own and that British banks appear to have been following a policy similar to that of American banks.

HULL

894.24/685

*The Chinese Ambassador in the United Kingdom (Quo Tai-chi) to the Chinese Ambassador in the United States (Hu Shih)*²¹

Because of the European situation the British Government have been forced, temporarily, to act toward Japan with great patience. But they are much interested in Senator Pittman's new bill. The embargo of war materials to Japan, if passed by Congress, will certainly be followed by the British Government.

893.102 Tientsin/403

Memorandum of Conversation, by the Under Secretary of State (Welles)

[WASHINGTON,] July 21, 1939.

The French Ambassador called to see me this morning at his request. The Ambassador read to me a telegram dated July 18 which had

¹⁹ Neither printed.

²⁰ See memorandum of conversation, by the Chief of the Division of Far Eastern Affairs, January 27, p. 494.

²¹ Text of a cable received by the Chinese Ambassador in Washington July 13; copy received by the Department July 17.

been sent by the French Ambassador at Tokyo²² reporting on the course of the British negotiations.²³ The French Ambassador in Tokyo had expressed the belief that while both the Japanese and the British Governments were in accord in desiring a satisfactory agreement as a result of the negotiations, nevertheless, the deliberate inflammation of public opinion by the extremist elements and the growing influence of the extremist military authorities in Japan made it highly unlikely that any agreement could be found. The telegram went on to say that the German Embassy in Tokyo and German agents were now cooperating notoriously with the extremist military authorities in Japan and that much German money was being spent. The French Ambassador in Tokyo stated that he was convinced that the "Hochi", which had recently adopted a violently reactionary and pro-German policy, had been bought by the German Embassy and was now completely under German control.

I gave the Ambassador the gist of the telegram dated July 20 received from the American Embassy in Tokyo with regard to the negotiations.^{23a}

The Ambassador then went on to say that while he was not authorized to do so, and far less had instructions to do so, he desired to read to me a note sent by the French Foreign Office under date of June 15 to the British Embassy in Paris written in reply to an inquiry received by the French Government from the British Government as to the attitude which France would take in the event that Great Britain requested her to join in the adoption of measures of reprisal and retaliation against Japan. The Ambassador said it was impossible for him to let me have a copy of this communication.

The contents of the note were as follows: France declares that in the event that measures of retaliation and reprisal are undertaken, France will definitely not get out in front and appear to take the initiative in the matter; that on the other hand, if several governments adopt a common policy in this regard so that the risks of Japanese retaliation are spread, France will be willing to take part in such policy. She declares that cooperation in this matter of France, Great Britain, and the United States is essential, and that the cooperation of the United States in the event that such a policy is adopted is imperative because of the vulnerability of French Indochina to Japanese attack. France states that if measures of reprisal, such as an embargo upon Japanese exports and upon the import into Japan of raw materials and other commodities from other powers, are to be

²² Charles Arsène-Henry.

²³ See section entitled, "American Interest in Situation Created by Japanese Demands on the British Concession at Tientsin," vol. iv, pp. 163 ff.

^{23a} *Ibid.*, p. 223.

placed in effect, France would require not only that such measures be undertaken by common accord among the governments primarily interested in China, in any event between France, Great Britain, and the United States, but would likewise require guarantees of assistance in the event that such a policy should result in an attack by Japan upon French colonial possessions. France states on the other hand that if the measures are to be limited to the furthering of financial and commercial assistance to China, some indication to Japan that the measures undertaken by the governments concerned are simultaneous or parallel and taken as the result of a common understanding would be sufficient.

The French Government points out that the most effective means of rendering assistance to China at the present time is through the furnishing of arms and ammunition. It is emphasized that only three routes for the shipment of such supplies to China are now open, namely, the route through Turkestan which is long and results in great expense, the route over the new road from Burma which has just been opened and which is expensive and is as yet insecure, and finally, transshipment through French Indochina. If transshipments through French Indochina are to be undertaken, France insists that such opening of French Indochina to transshipment must be recognized by Japan as the result of an agreement in this regard on the part of the several powers most concerned in order that Japan will clearly recognize that such a policy on the part of France is undertaken only with the assurance of support from Great Britain and the United States. It is emphasized repeatedly in the note that France will not agree to any measure of this character nor to any measure of retaliation or reprisal against Japan without assurances from the United States. The French Government states that this is a *sine qua non*. The note goes on to say that if a general accord on the part of the nations most interested in China can be found, the Government of Australia should be included as well as the Government of the Netherlands, although it is recognized that the latter would be reluctant to take part in any such concerted action without effective guarantees of the most positive character, and that the form of such guarantees must depend in the last analysis upon the United States.

I expressed to the Ambassador my appreciation of his courtesy in giving me in this succinct and clear form the views of the French Government with regard to this question. I said that I should like to give these questions very full consideration before giving him any reaction of any kind. I said, however, that in the consideration of these questions I would desire to have very clearly from him his interpretation of one feature of the note which he had read to me. I asked him if I was correct in understanding that the note implied that the French Government would not undertake any measures of retaliation

against Japan in the nature of commercial or financial embargoes unless such measures formed a part of a common agreement between several powers to which the United States must necessarily be a party and further, unless the Government of the United States were willing to give guarantees to France that it would take part in the defense of French Far Eastern colonial possessions should the latter be attacked by Japan as a result of the measures taken.

The Ambassador stated that my understanding was entirely correct.

I said that, of course, the Ambassador must fully recognize that such an agreement on the part of the United States would be tantamount to entering into a defensive alliance of a military and naval character with France and that no such alliance could be concluded without the ratification of the United States Senate. I also reminded him that this Government had made it plain from the outset of the hostilities in China that this Government was taking and would take an independent course, depending upon the fundamental interests of the United States and as they might be affected by the course of events and that while for obvious reasons we had frequently taken action parallel to that of France and of Great Britain during the past three years, nevertheless such action had been taken because in our judgment circumstances at the moment warranted it and our action at no time had been the result of prior agreements or commitments entered into. The Ambassador said he fully recognized that this was the case.

I told the Ambassador that I would have an opportunity of speaking with him again next week with regard to some of the aspects of the note which he had brought to my attention.

S[UMNER] W[ELLES]

611.9431/177

*The Acting Secretary of State to Senator Lewis B. Schwollenbach,
of Washington*

WASHINGTON, August 22, 1939.

MY DEAR SENATOR SCHWELLENBACH: I refer to your letter of August 9, 1939,²⁴ in which with particular reference to your discussion of the Far Eastern situation on the floor of the Senate on August 2, 1939,²⁵ you adopt the thesis that the supplying by the United States of a large percentage of the war materials used by Japan in carrying on hostilities in China constitutes a violation of the Nine Power Treaty concluded in Washington in 1922,²⁶ and suggest that the executive department of the Government might stop shipments of such supplies

²⁴ Not printed.

²⁵ *Congressional Record*, vol. 84, pt. 10, p. 10750.

²⁶ *Foreign Relations*, 1922, vol. I, p. 276.

under sections 238 and 245 of Title 22 of the United States Code, or, as an alternative, that business interests might be requested to desist from making such shipments.

Your detailed statement of August 2 in the Senate, and the further statement enclosed in your letter, have been read with care, and the Department offers comments as follows.

As you know, this Government attaches great importance to a scrupulous respect by all nations for international agreements, and this Department gives intensive consideration to every question affecting the interpretation of agreements to which the United States is a party, so that the courses of action which are adopted may be just and fair to all and clearly within the meaning and intent of the agreements.

With reference to your suggestion that sections 238 and 245 of Title 22 of the United States Code are applicable in the instant situation: This suggestion is apparently based upon an hypothesis that the shipment from the United States to Japan of "any arms or munitions of war, or other articles" is "in violation of law" in the sense that it constitutes a failure, under article 1, subparagraph 1 of the treaty of 1922, "To respect the sovereignty, the independence, and the territorial and administrative integrity of China". Section 241 of Title 22 provides for the libel and condemnation of property seized under section 238. The sections, being of a penal nature, are properly to be strictly construed. The wording of the treaty is general. It contains no specification of an obligation such as you have in mind.

With reference to your alternative suggestion that business interests might be requested to discontinue making shipments of war materials to Japan: The Department, in July of last year, as you know, expressed to the manufacturers and exporters in this country of airplanes and aeronautical equipment²⁷ its disapproval of the export of aeronautical supplies to countries the armed forces of which are engaged in the bombing of civilian populations from the air. The Department's representations to these manufacturers and exporters were based upon this country's general and unreserved condemnation, to which this Government has given expression repeatedly in public utterances, of the bombing of civilian populations.—Both the Government and the people of this country deprecate the use of American products in the prosecution of military conquest, especially such as involves intensive and widespread attack upon civilian populations. It is believed, however, that suggestions that the procedure of the advisory action be extended and be employed in regard to a considerable number and variety of articles call for very careful study with weighing of many facts and factors.

²⁷ Letter of July 1, 1938, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 201.

The Department greatly appreciates your deep interest in the subject and will welcome at all times expressions of your views in regard to any phases of this Government's foreign policy.

Sincerely yours,

SUMNER WELLES

894.51/652

Memorandum of Conversation, by the Assistant Chief of the Division of Far Eastern Affairs (Ballantine)

[WASHINGTON,] September 18, 1939.

Participants: Mr. F. J. Hellman, Vice President, Wells Fargo Bank and Union Trust Company, San Francisco
Mr. Hamilton
Mr. Ballantine

Mr. Hellman stated that his company has been extending commercial credits to Japanese banks, principally the Bank of Chosen and the First Bank, in connection with exports of California products to Japan, principally rayon pulp. He said that these credits are principally for periods of ninety days, but latterly a number of them have been for six months, and that they are secured by Japanese dollar bonds in the United States. Mr. Hellman explained that, so far as he knew, other American banks had discontinued granting such credits in 1931, following the Mukden incident, and that his bank was the only one that was continuing in this practice; that as a result of the policy of the bank it enjoyed considerable good will among the Japanese, and Californian exporters were enabled to do a volume of profitable business. Mr. Hellman inquired whether, as a consequence of our notification of desire to terminate the commercial treaty,²⁸ there was any reason why the bank should alter its policy in respect to these credits.

Mr. Hellman was reminded, in reply, of the action taken by the Department of Commerce last year in advising American exporters, in view of the exchange control policies adopted by Japan which had resulted in freezing in Japan large amounts of funds due to American firms, to restrict transactions to those on a fully secured basis. He was told that, while there was no law or regulation which prohibited or restricted American banks in the matter of loans and credits to Japan, the Department had, when approached on this question by American businessmen, expressed the hope that American business would be guided by consideration of the effect upon American interests in general in the Far East of the granting of such credits, having in mind Japanese policies and actions, and looking at the question from a long-range point of view. Mr. Hellman was informed

²⁸ See pp. 558 ff.

that the Department had not undertaken to define the range within which short-term commercial credits might not be objectionable but that it was our understanding that the general tendency not only in this country but in certain other countries was to shorten the term of any such commercial credits. It was indicated to Mr. Hellman that this development was in line with the attitude which the Department hoped would be followed by American businessmen and bankers. It was also pointed out to Mr. Hellman that this question was entirely independent of the question of the forthcoming termination of the commercial treaty with Japan of 1911. Mr. Hellman was asked to regard this expression of views on the question of extending credits as confidential.

711.94/1304

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hamilton) to the Secretary of State*

[WASHINGTON,] September 21, 1939.

MR. SECRETARY: It is my judgment that it would be wise for you to take a definitely discouraging attitude in regard to the suggestion offered to Mr. Aldrich²⁹ by the Japanese Financial Commissioner that a senior vice president of a leading bank, an important railroad man and a steel man visit Japan as a sort of "mission of good will".

For over two years this Government has been making continuous representations to the Japanese Government in regard to the impairment by Japanese agencies of American rights and interests in China. In reply to some of these representations, the Japanese Government has given assurances to respect American rights and interests. The impairments have, however, steadily continued. The present situation calls for action by the Japanese Government which would put an end to impairment of American rights and interests. It does not call for the making by this Government or by the American people of any "gesture" toward Japan.

The Department has long been of the opinion that no useful purpose is served by the sending by Japan to this country of good will missions or envoys. Such missions are the subject of misinterpretation and serve to arouse undesirable speculation in many quarters.

An American good will mission to Japan, such as that suggested by the Japanese Financial Commissioner, would likewise be the subject of misinterpretation and would occasion speculation and misunderstanding in many countries. The Japanese Government and people would undoubtedly utilize the sending of such a mission to endeavor

²⁹ Winthrop W. Aldrich, Chairman of the Board of Directors, Chase National Bank, New York.

to persuade the Japanese people that the American people (and perhaps the Government) had decided to adopt a conciliatory attitude toward Japan; that American business and financial interests were in close and cordial contact with Japanese business and financial interests; and that there were prospects that American banks and business interests would extend credits to Japan. As you know, we have hoped that American business and financial interests would not during the present situation extend credits to Japan.

The sending of such a good will mission to Japan would undoubtedly be utilized by the Japanese Government to make political capital in China and in other countries. Moreover, the sending of such a mission would serve to discourage the Chinese Government and people.

In other countries the sending of such a mission would also be likely to occasion undesirable speculation and unwarranted interpretations.

In my opinion the sending of such a mission would serve no useful purpose and would be likely to serve purposes definitely disadvantageous to the policies of this Government and the interests of this country.

M[AXWELL] M. H[AMILTON]

711.94/1308

Memorandum by the Adviser on Political Relations (Hornbeck) to the Secretary of State

[WASHINGTON,] September 21, 1939.

MR. SECRETARY: There are here attached three memoranda:⁸⁰ first, a memorandum reporting Mr. Aldrich's statement of the question which he wishes to discuss with you, in which Mr. Aldrich reports that the Japanese Financial Commissioner has stated to him that there is a changed attitude on the part of the Japanese Government and the Commissioner suggests the sending of a "good will mission" composed of a banker, a railroad man, and a steel man, to Japan; second, a memorandum of comment, by Mr. Hamilton, on that proposal; and, third, a memorandum which the Navy Department has given me this morning stating that the Board of Directors of the Chase National Bank has received from the Japanese Financial Commissioner a plan whereby the Japanese would undertake to grant the Chase Bank prior rights in China in return for a financing by the Chase Bank of the transportation systems of Japan.

I surmise that the matter referred to by Mr. Aldrich and the matter reported by the Navy Department are separate but integral parts of one and the same Japanese project.

⁸⁰ First and third not printed; second printed *supra*.

In comment upon the statement attributed to the Japanese Financial Commissioner that there is a changed attitude on the part of the Japanese Government, it is my opinion that there is a change neither of attitude nor of heart; the only change is a slightly perceptible change in strategy and tactics.

I concur absolutely in the views expressed by Mr. Hamilton, with recommendation that you definitely discourage the project for a "mission of good will". And, I would suggest that, if Mr. Aldrich says anything about the plan for a refinancing by the Chase Bank of the transportation systems of Japan, you pour ice water upon such a project.³¹

STANLEY K. HORNBECK

894.24/719

Statement Prepared by the Division of Controls

There are no statutes now in existence authorizing the placing of restrictions on the export to any country of materials other than those technically defined as arms, ammunition, and implements of war. Before the export to any country of other manufactured products, or of raw materials, such as scrap iron, could be prohibited, new legislation would be required.

The Neutrality Act of May 1, 1937^{31a} prohibits the export of arms, ammunition, and implements of war to countries between or among which the President has found a state of war to exist. Any embargo imposed under this Act must apply equally to all the belligerents. In determining not to make such a finding in regard to the situation in the Far East, the President has exercised the discretion vested in him by the Act, the primary purpose of which is to safeguard the interests of this country and those of its nationals. It is not possible under the Act to impose an embargo on exports to Japan alone as has frequently been suggested. Any embargo under the Neutrality Act must necessarily prohibit the export of arms, ammunition, and implements of war not only to Japan but to China as well. It may be of interest to note in this connection that since July 1, 1937, the Department of State has issued licenses for the export of arms, ammunition, and implements of war to China in the value of \$15,531,778.68 and to Japan in the value of \$11,388,484.78.

[WASHINGTON,] October 9, 1939.

³¹ On September 25 the Secretary explained the situation to Mr. Aldrich by telephone.

^{31a} 50 Stat. 121.

894.24/759

Memorandum by the Chief of the Division of Controls (Green) ³²

It is considered that the national interest suggests that for the time being there should be no further delivery to interests of certain countries of plans, plants, manufacturing rights, or technical information required for the production of high quality aviation gasoline.

Accordingly, the Department has requested E. B. Badger and Sons Company, the M. W. Kellogg Company, the Phillips Petroleum Company, the Shell Oil Company, Incorporated, the Shell Union Oil Corporation, the Socony-Vacuum Oil Co., Incorporated, the Standard Oil Development Company, the Sun Oil Company, and the Universal Oil Products Company to withhold any further sale or delivery of any such plans, plants, manufacturing rights or technical information, or of related patents, processes, or engineering assistance to representatives of or for use in certain countries.

In the event that the sale or delivery of such plans, plants, manufacturing rights or technical information, or of related patents, processes, or engineering assistance to certain other countries is contemplated, it is understood that the Department will be informed.

It is understood that, in case negotiations are broken off or the fulfillment of commitments is suspended, the request of the Department may be given as a reason for such action.

Should any problems arise in connection with the carrying out of this program, companies may communicate with the Division of Controls of the Department which will be glad to take up any such problems at once.

The Department recognizes that companies other than those represented in the meeting held today will have an interest in this policy. It is understood that the representatives of the companies listed above will take it upon themselves to communicate with representatives of such companies.

For the purpose of giving additional effectiveness to this policy, if necessary, it is considered desirable that manufacturers and exporters of such blending agents as tetra-ethyl lead, iso-octane, neo-hexane, and alkylates be requested to furnish the Department with data as to recent shipments or contemplated shipments of such blending agents to certain countries ³³ to the end that the Department may be informed as to whether large reserve stocks are being built up in that country. The Department is, therefore, with a view to determining whether or not the sale for export of such blending agents

³² Copies transmitted on December 19 to the companies listed in the second paragraph. For the Department's press release of December 20, see *Foreign Relations, Japan, 1931-1941*, vol. II, p. 203.

³³ Countries referred to were Japan and the Soviet Union.

requires further discussion, requesting the companies listed below to furnish it currently with such information:

Atlantic Refining Company
Cities Service Export Company
Ethyl Gasoline Corporation
Gulf Refining Company
Pan American Refining Company
Phillips Petroleum Company
Shell Union Oil Corporation
Sinclair Refining Company
Socony-Vacuum Oil Company, Inc.
Standard Oil Company of California
Standard Oil Company of Indiana
Standard Oil Company of New Jersey
The Texas Company
Tidewater Associated Oil Company

JOSEPH C. GREEN

793.94/15697

*Memorandum Prepared in the Department of State*³⁴

[WASHINGTON,] December 29, 1939.

There exist at the present time several reasons why it seems to be important to formulate without delay a program of possible future action in relation to the Far Eastern situation.

At the forthcoming session of Congress there will undoubtedly be presented for consideration various legislative proposals relating to the Far Eastern situation. Senator Pittman has already publicly indicated that he would press for the adoption of the bill introduced by him during the last regular session of Congress³⁵ under which the President would be authorized to prohibit the export to Japan of various commodities important to Japan in the carrying on of its hostilities in China. Other legislative proposals such as that presented by Senator Schwollenbach at the last session of Congress and which envisages a broader embargo on exports from the United States to Japan than that contemplated in Senator Pittman's bill are also likely to come up for consideration. It is believed that various definite disadvantages would attach to and flow from an enactment in the near future of embargo legislation. There are likewise strong objections to the defeat of such bills should they be brought up for active consideration. The proponents of such measures could probably not be dissuaded from pressing for their enactment unless the administra-

³⁴ Drafted by the Division of Far Eastern Affairs and the Adviser on Political Relations (Hornbeck); transmitted to the Secretary of State on January 3, 1940.

³⁵ S. J. Res. 123, introduced on April 27 by Senator Key Pittman, Chairman of the Senate Committee on Foreign Relations; *Congressional Record*, vol. 84, pt. 5, p. 4821.

tion presents a clearly defined alternative course of action which would appear to be safer and to hold promise of achieving the same end, namely, the protecting of American rights and interests in the Far East, including the upholding of principles common to our foreign policy as a whole.

The commercial treaty between Japan and the United States expires on January 26, 1940, thus freeing this Government to take various types of action against Japan which, if taken before then, would have raised questions of our treaty obligations. The Department will be subject to strong conflicting pressures, and in order to make the wisest use of the freedom of action resulting from termination of the treaty, it would seem to be desirable for the Department to plan its steps in advance.

The Chinese Government seems to be approaching a critical period in which substantial economic and financial assistance from abroad may be essential for maintenance of the Chinese currency and for continuation of effective resistance on the part of the Chinese Government. Should the Chinese currency collapse, not only would it be difficult for the Chinese Government to continue organized resistance but the Japanese and the regimes which they sponsor in China would probably establish new currencies and new trade and exchange controls which would threaten American trade and investments in China with virtual extinction.

There are given below some suggestions as to action which this Government might take (*a*) to assist China and (*b*) to exert economic pressure on Japan:

I. AID TO CHINA

1. Additional Export-Import Bank credits.
2. Support for China's currency.
3. A Congressional appropriation for the relief of civilians in China.
4. A direct loan to the National Government of China.

II. THE TAKING OF RESTRICTIVE MEASURES AGAINST JAPAN BY EXECUTIVE ACTION AND ON THE BASIS OF EXISTING LAW

1. Continuance (and possible strengthening) of present policy of discouraging extension of credits to Japan.
2. Continuance (and possible extension) of existing moral embargo on export to Japan of airplanes, aeronautical equipment, material for the manufacture of airplanes, and technical processes for the manufacture of aviation gasoline.
3. Denial of trade agreement rates to Japan: "blacklisting". (Note: Under the Trade Agreements Act ³⁶ the President may deny the benefits of trade agreement rates to countries whose acts or policies obstruct the expansion of American commerce.)

³⁶ Approved June 12, 1934; 48 Stat. 943.

4. Imposition of additional duties on imports from Japan under Section 338 (e) of the Tariff Act of 1930. (Note: Under this Section the President may impose new or additional duties up to 50 percent ad valorem on the products of industries of a country when those industries benefit by discriminations maintained in third countries against American commerce.)

The suggestions listed above are not recommended as a "program" to be adopted *in toto* and to be carried in definite sequence to completion. It is felt that in the present rapidly developing international situation where there are involved interplay of many varying factors, the carrying out in orderly sequence of a predetermined program or schedule of action might not be appropriate to a particular moment. For example, the taking of restrictive measures against Japan at this time, while conversations are taking place in Tokyo between the American Ambassador and the Japanese Minister for Foreign Affairs in regard to an improvement in American-Japanese relations, might adversely affect those conversations. It is therefore believed that definitive choices of action should be made from time to time in the light of all circumstances existing at a particular moment. However, it is suggested generally that at the present time the extension of aid to China appears to hold more of promise toward protecting the interests of this country in the Far East than does the adoption of economic measures against Japan. Moreover, the suggested measures to aid China require preliminary discussion with other departments or agencies of the Government and with members of Congress. In the comments which follow there are therefore included several specific recommendations in regard to procedure which it is believed it would be advisable to carry out immediately.

I. AID TO CHINA ³⁸

1. *Additional Export-Import Bank credits.*

Although the Export-Import Bank does not have visible funds available for an extension of additional credit to China at the present time, it is understood that certain adjustments of the bank's loans may be made in such a way as to free the bank from some of its existing obligations and put it in position to assume others. Furthermore, it is expected that the bank may receive authority from the forthcoming session of Congress to increase the amount of its commitments. As a matter of procedure, it is suggested that the Secretary of State communicate with Mr. Jesse Jones,³⁹ informing him that this Department would favor the extension of further substantial credits to China.

³⁸ See also pp. 636 ff.

³⁹ Administrator of the Federal Loan Agency and member of the Executive Committee of the Export-Import Bank of Washington.

2. *Support for China's currency.*⁴⁰

The Chinese Government has upon several occasions called attention to the fact that its currency reserves are dwindling and has emphasized the extreme importance which it attaches to the maintenance of the external and internal value of the Chinese currency. Dr. Arthur Young, American Financial Adviser to the Chinese Government, who was recently in Washington, is convinced of the necessity of maintaining the value of China's currency if China's resistance is to be continued. It is feared that during the coming months the Japanese will renew their offensive against the Chinese currency and that, given the present meagerness of China's reserves, the currency may collapse and prices get out of hand, with consequences injurious not only to China but also to the United States.

The circulation of Chinese national currency at Shanghai and in the surrounding areas of Japanese-occupied central China is the main obstacle to the monopolization by Japan of the markets of those areas. The technique developed by Japan for the monopolization of the trade of large areas has become quite familiar through its use in Manchuria and north China. The first step is the military occupation of a given area. The second step is the establishment therein of a Japanese-controlled regime. The third step is the creation of a new currency. The fourth step is the driving out of existing currencies and the pegging of the new currency to the yen coupled with the imposition of exchange and import and export controls which permit a comparatively free flow of funds and merchandise between the area concerned and Japan but which restrict and impede the flow of funds and merchandise between the area concerned and other foreign countries. In central China the Japanese have accomplished the first three of the above-enumerated steps but the continued circulation therein (with the assistance afforded by the independently policed International Settlement at Shanghai) of Chinese national currency has thus far prevented the accomplishment of the fourth and last step. The collapse of the Chinese national currency would remove the last main obstacle to that accomplishment. Such collapse would result in a lowering of Chinese morale and in disorganization which would tend to reduce the effectiveness of any assistance which the Government of the United States might desire, in the protection of its interests in the Far East, to extend to the Chinese Government.

Under existing legislation the Secretary of the Treasury is empowered to engage in currency stabilization operations, and there exists a stabilization fund of approximately two billion dollars which remains at this moment practically idle. However, the Secretary of the Treasury gave during the last session of Congress an oral commitment to

⁴⁰ See also pp. 348 ff., *passim*.

the Senate Committee on Finance and Banking that he would not purchase foreign currency without collateral. It is understood that the Secretary of the Treasury now feels that he cannot engage in such operations without Congressional authority. A joint resolution by Congress authorizing the Secretary of the Treasury to buy Chinese currency without collateral up to a maximum stated amount, perhaps as much as fifty million dollars, would probably make it possible to furnish the support which the Chinese currency needs.

As a matter of procedure it is suggested that the Secretary of State inform the Secretary of the Treasury either by letter or orally of his interest in the matter of extending support to the Chinese currency, that he say to the Secretary of the Treasury that it is the desire of this Department to support a legislative act giving the Secretary of the Treasury the authority needed to extend aid to China's currency, and that he ask the Secretary of the Treasury's advice in regard to the whole matter and particularly in regard to the type of legislation which might under the circumstances be most desirable and practicable toward accomplishing the end desired.

3. *A Congressional appropriation for the relief of civilians in China.*

On a number of occasions the Congress of the United States has made appropriations for the relief of civilians in foreign countries. There are listed below seven such acts of Congress:

1. An Act for the relief of the citizens of Venezuela, May 8, 1812,⁴¹ appropriated \$50,000.

2. An Act for the relief of citizens of the French West Indies, May 13, 1902,⁴² appropriated \$200,000.

3. An Act for the relief of citizens of Italy, January 5, 1909,⁴³ appropriated \$800,000.

4. An Act providing for the relief of such populations in Europe, and countries contiguous thereto, outside of Germany, German-Austria, Hungary, Bulgaria, and Turkey, as may be determined upon by the President as necessary, February 25, 1919,⁴⁴ appropriated \$100,000,000.

5. An Act for the relief of the distressed and starving people of Russia, December 22, 1921,⁴⁵ appropriated \$20,000,000.

6. An Act to authorize the President to transfer certain medical supplies for the relief of the distressed and famine stricken people of Russia, January 20, 1922,⁴⁶ appropriated \$4,000,000.

7. An Act for the relief of sufferers from earthquake in Japan, February 24, 1925,⁴⁷ appropriated \$6,017,069.03.

⁴¹ 2 Stat. 730.

⁴² 32 Stat. 198.

⁴³ 35 Stat. 584.

⁴⁴ 40 Stat. 1161.

⁴⁵ 42 Stat. 351.

⁴⁶ 42 Stat. 357.

⁴⁷ 43 Stat. 963.

A bill (H. R. 9150) looking toward the appropriation of five million dollars for the relief of the civilian population of China was introduced into the last session of Congress by Representative Culkin of New York.⁴⁸

It is suggested that the Department lend its support to the passage through Congress of a bill appropriating a substantial sum of money for relief of civilians in China. As a matter of procedure it is suggested that the Secretary of State authorize initiation of immediate conversations with the American Red Cross in regard to the amount needed for relief in China, administration of relief in China, and the wording of a bill providing for such relief.

4. *Direct loan to the National Government of China.*

There seems to be an increasing public sentiment in favor of a loan, through Congressional action, by the Government of the United States to Finland. This raises the question whether a direct loan to China might be authorized by Congress. Both China and Finland are victims of military aggression and neither country has been classified as a defaulting nation under the terms of the Johnson Act.⁴⁹

II. THE TAKING OF RESTRICTIVE MEASURES AGAINST JAPAN BY EXECUTIVE ACTION AND ON THE BASIS OF EXISTING LAW

1. *Continuance (and possible strengthening) of present policy of discouraging extension of credits to Japan.*

For some time the Department and the Government as a whole have been informally discouraging the extension of credits to Japan. It is believed that this policy has been in general successful in accomplishing the end desired and that it should be continued and, if need be, strengthened by public announcement.

2. *Continuance (and possible extension) of existing moral embargo on export to Japan of airplanes, aeronautical equipment, material for the manufacture of airplanes, and technical processes for the manufacture of aviation gasoline.*

The moral embargo which has been placed on the export to Japan of airplanes and aeronautical equipment and technical processes for the manufacture of aviation gasoline is believed to have the hearty support of the American people. While it is realized that the placing of embargoes on moral grounds (without basis in law) is open to certain objections, especially if the basis for the placing of the embargo should be on other than generally accepted humanitarian principles, it is suggested that consideration might be given, should circumstances seem to make such action advisable, to extending the

⁴⁸ *Congressional Record*, vol. 83, pt. 1, p. 1093.

⁴⁹ Approved April 13, 1934; 48 Stat. 574.

existing moral embargo on certain exports to Japan to include other commodities, such as petroleum, scrap iron and steel, et cetera.

3. *Denial of trade agreement rates to Japan: "blacklisting".*

The Trade Agreements Act provides that the President may suspend the application of the duties reduced in trade agreements to the products of any country because of discrimination by such country against American commerce or because of other acts or policies which in his opinion tend to defeat the purposes set forth in the Act. The question whether the acts and policies of Japan in China have been such as to defeat the purpose of the Trade Agreements Act, namely, the expansion of foreign markets for the products of the United States, has been studied carefully in the Department and it is believed that, were it deemed desirable to do so, Japan might lawfully and with warrant be put on the "blacklist".

4. *Imposition of additional duties on imports from Japan under Section 338 (e) of the Tariff Act of 1930.*

Under Section 338 (e) of the Tariff Act of 1930 the President is empowered to impose new or additional duties up to fifty percent ad valorem on the products of industries in a country which benefit by discriminations maintained in a third country against American commerce. The question whether the discriminations maintained in China and Manchuria are such as to justify action under Section 338 (e) has been the subject of extensive study in the Department and the conclusion has been reached, and is concurred in by the General Counsel of the Tariff Commission and by the Department of Justice, that discrimination is occurring within the meaning of Section 338 (e) and that action against Japanese commerce may be taken under that Section. The industries in Japan which benefit from the discriminations for which the Japanese Government is responsible in China, including Manchuria, are so numerous that this form of retaliatory action may be applied, should this Government so desire, to practically all of Japan's exports to the United States.

CONSIDERATIONS CONTRA AN ENACTMENT OF EMBARGO LEGISLATION

It is believed that, as between enactment of legislation authorizing the executive to place embargoes upon export trade to Japan and procedure in accordance with the suggestions made above, the former would create more difficulties for the administration than would the latter and, if embargoes were applied, would create greater risk of provoking Japanese authorities to acts inimical to maintenance of peaceful relations between Japan and this country. It is believed that action on the part of this Government the effect of which would be to strengthen China would give less ground for and be less likely

to arouse hostility on the part of the Japanese, which might easily be given expression in acts of retaliation and reprisal, than would measures the direct effects of which would be to weaken Japan. The Chinese Government has been and presumably will be maintaining a substantial organized resistance to the Japanese invasion. It is to the interest of the United States that China survive as an independent and sovereign country. It would seem to be a sound strategy for this country to take action calculated to contribute toward survival of the Chinese Government and of China's sovereignty. The first four suggestions made above envisage and involve support of the Chinese Government and of China's efforts at self-defense. The last four of the items envisage and involve action against Japan, but action of a type which can be based on executive decision under the authority of legislation which already exists and which has been in effect for many years: they fall within the framework of our established commercial policy and require neither new legislation nor new machinery for execution. By procedure along that line, the political aspects of our action in exertion of pressure could be minimized and dangerously great provocation of Japan, to the extent of causing the Japanese Government to take retaliatory action, might be avoided. The concept of embargo legislation has become associated with the idea of economic sanctions; further it is associated with popular emotion and with national antagonisms: enactment of embargo legislation would tend to feature a quality of hostility in this country's attitude toward Japan and cause the Japanese to regard this country as a political enemy, whether or not the President proceeded to make use of the authority granted him in such legislation. Japanese resentment might easily express itself in acts on the part of Japanese authorities which would in turn push this country toward the placing of or the increasing of embargoes, and the conflict in the relations between Japan and this country would become increasingly acute. Pressure groups in this country would become increasingly vociferous in their demands upon the President and the Department of State. The question of this country's Far Eastern policy might then, and readily, become a football of "politics".

894.24/763 : Telegram

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

Тоkyo, December 30, 1939—noon.

[Received December 30—9:10 a. m.]

717. 1. The Foreign Office informed me yesterday evening that it was instructing the Japanese Ambassador at Washington to protest to the Department against the "moral embargo" laid down in the Depart-

ment's reported statement of December 20⁵⁰ on the shipment to Japan of aluminum, molybdenum, gasoline⁵¹ and patented processes for the manufacture thereof, on the ground that such embargo infringes the Treaty of Commerce and Navigation. The Foreign Office asked at the same time whether I could see my way clear to recommending that such embargo be withdrawn as it is certain to affect adversely the current conversations looking toward improvement of American-Japanese relations.

2. The Foreign Office explained that no official Japanese cognizance had been taken of the Department's previous action in respect of airplanes and munitions which was put on humanitarian grounds, as protest on the basis of treaty provisions would have seemed "too legalistic". The recent American action, however, is stated to be based on military requirements, and if no objection were entered by Japan the list of interdicted commodities might well be extended indefinitely by further moral embargoes. Further, Japanese firms had made payments in the United States against contracts for the supply of embargoed goods and nonfulfillment of contracts would cause "much inconvenience."

3. Reply was made to the Foreign Office that presumably the Department's action was taken after careful consideration of all involved factors and that I could not make the recommendation requested.

4. It is my opinion, however, that the Japanese Government's representations, when made public here, might well cause an unfavorable popular reaction in Japan and thus render even more problematical the chances of achieving constructive results through the present conversations.

GREW

NOTICE OF TERMINATION OF THE 1911 TREATY OF COMMERCE AND NAVIGATION BETWEEN THE UNITED STATES AND JAPAN; DISCUSSION REGARDING POSSIBILITY OF A NEW AGREEMENT⁵²

711.942/235

The Secretary of State to the Japanese Ambassador (Horinouchi)

WASHINGTON, July 26, 1939.

EXCELLENCY: During recent years the Government of the United States has been examining the treaties of commerce and navigation in force between the United States and foreign countries with a view

⁵⁰ See press release issued by the Department of State, December 15, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 202.

⁵¹ Gasoline was not included; the Department so informed the Embassy in Japan in telegram No. 4, January 3, 1940, 7 p. m.

⁵² For additional correspondence regarding the abrogation of the treaty of 1911, see *Foreign Relations, Japan, 1931-1941*, vol. II, pp. 189 ff.

to determining what changes may need to be made toward better serving the purposes for which such treaties are concluded. In the course of this survey, the Government of the United States has come to the conclusion that the Treaty of Commerce and Navigation between the United States and Japan which was signed at Washington on February 21, 1911,⁵³ contains provisions which need new consideration. Toward preparing the way for such consideration and with a view to better safeguarding and promoting American interests as new developments may require, the Government of the United States, acting in accordance with the procedure prescribed in Article XVII of the treaty under reference, gives notice hereby of its desire that this treaty be terminated, and, having thus given notice, will expect the treaty, together with its accompanying protocol,⁵⁴ to expire six months from this date.

Accept [etc.]

CORDELL HULL

711.942/235

Memorandum by the Assistant Secretary of State (Sayre) of a Conversation With the Counselor of the Japanese Embassy (Suma)

[WASHINGTON,] July 26, 1939.

Mr. Suma came in at 4:30 this afternoon at my request. After speaking to him about the renewal of the Gentlemen's Agreement concerning the importation of Japanese cotton piece goods into the Philippines⁵⁵ and his saying that the Japanese Government had issued almost word for word the same notice covering this renewal as we had issued, I turned to the subject for which I had asked him to see me, i. e., the denunciation of the Japanese Treaty. I handed to Mr. Suma a note, a copy of which is attached hereto.⁵⁶ Mr. Suma read it carefully but betrayed no emotion of any kind. He asked me whether this was the result of the resolution introduced into the Senate Committee on Foreign Relations by Senator Vandenberg.⁵⁷ I replied that the State Department had had the matter under consideration for some time and that the initiative in the matter was not the result of the Senate resolution. I went on to say, however, that the State Department naturally gives the most serious consideration to the views of the Senate and that the introduction of the resolution into the Senate

⁵³ *Foreign Relations*, 1911, p. 315.

⁵⁴ *Ibid.*, p. 319.

⁵⁵ See vol. iv, pp. 462 ff.

⁵⁶ *Supra.*

⁵⁷ Arthur H. Vandenberg, Republican, of Michigan, member of the Senate Committee on Foreign Relations, introduced S. Res. 166 on July 18, *Congressional Record*, vol. 34, pt. 9, p. 9341. See also letter from the Secretary of State on July 21 to Senator Key Pittman, Chairman of the Committee, Department of State *Bulletin*, July 22, 1939, p. 61.

Committee did have an effect so far as concerns the timing of this action.

I said to Mr. Suma that we proposed to issue a copy of this notice to the press at 10:00 o'clock this evening and asked him whether that would give sufficient time to allow the Japanese Foreign Office at Tokyo to receive the cable. I said that naturally we did not want to let the press know about this until after our note has been received by the Japanese Foreign Office. Mr. Suma replied that if we held up the notice until 10:00 o'clock that would be sufficient time. I cautioned Mr. Suma against saying anything himself about this since, if word got out through him, his Government might learn of it through the press instead of through our note. He agreed to say nothing about it to reporters.

The interview was friendly throughout.

F. B. SAYRE

711.942/177: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, July 27, 1939—3 p. m.

[Received July 27—6 a. m.]

365. Department's 219, July 26, 6 p. m.⁵⁸

1. I was called to the Foreign Office this morning and was asked by Yoshizawa⁵⁹ whether I could throw any light on the reasons for the giving of notice by the American Government of termination of the treaty of commerce and navigation. I replied that I had been informed only of the action taken yesterday by the Department and that the text of the note delivered to the Japanese Embassy had been telegraphed to us. I assumed from the fact that the note had been delivered to the Counselor of the Japanese Embassy by Mr. Sayre that the considerations out of which this action arose were primarily those affecting American economic policies. I suggested that these considerations might possibly be: (a) the inadequacy of existing treaty provisions towards safeguarding American commercial interests in Japan under conditions of Japanese trade control; and (b) need for providing domestic textile manufacturers with protection against foreign competition equivalent to the subsidy which might be granted on exports of raw cotton. Yoshizawa then suggested as a possible explanation that our Government anticipating passage of the Vandenberg resolution had taken action at this time in order to

⁵⁸ Not printed; it informed the Embassy in Japan of the notice of intention to terminate the treaty of 1911 (711.942/177a). Text of the notice was communicated to the Embassy in a separate telegram.

⁵⁹ Seijiro Yoshizawa, Director of the American Affairs Bureau, Japanese Foreign Office.

indicate that termination of the treaty was moved by considerations other than the delicate one of removing legal objection to the laying down of export embargoes against Japan. I declined to comment.

2. The Foreign Office will I understand give out to the press this afternoon something by way of comment.⁶⁰

DOOMAN

711.942/177 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, July 27, 1939—6 p. m.

223. At my press conference today I stated in reply to a question by a correspondent as to what will be the next step as to the formulation of a new treaty that "Of course, you will observe the implications from the express provisions of the note in this respect". In reply to a request for further details I stated: "They would be determined according to developments during the next 6 months on phases of that question." I added that "During the next 1, 2, 4, and 6 months we will be able to work this out as developments occur, perhaps more satisfactorily than it can be taken up at the present moment." A correspondent observed that there is present in this situation the implication that perhaps some political issues in the Far East are involved in the cancellation of this treaty and asked whether there must be settled certain outstanding political differences or an agreement reached as a prerequisite to a new treaty. I stated "I would like to say as I said in the beginning and I repeat that for the present this notice, which is couched in well-understood, well-established terms so far as the meaning is concerned, should best be allowed to speak for itself."

In reply to a question in regard to your call at the Foreign Office, I said that "I got the impression that there was nothing tangible that came out of the call itself" and that we had received no tangible reaction at this stage from the Japanese. To a question as to whether I had discussed with the Secretary of the Treasury⁶¹ the situation in regard to a reported announcement by the Secretary of the Treasury that he was going to review all the use of Japanese imports of gold and silver and other imports into this country, presumably in the light of this notification, I replied that I had not gone into those matters with him.

HULL

⁶⁰ See telegram No. 366, July 28, 11 a. m., from the Chargé in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 189.

⁶¹ Henry Morgenthau, Jr.

711.942/196 : Telegram

*The Ambassador in China (Johnson) to the Secretary of State*CHUNGKING, July 31, 1939—10 p. m. [*a. m.*]
[Received July 31—8:22 a. m.]

478. I visited the Generalissimo⁶² yesterday afternoon at his request. Following the usual amenities he launched into a discussion of the abrogation of the American Treaty with Japan, terming it a "great and illustrious" action on the part of the President and the Secretary of State. Continuing on this theme he stated that the American action had come at a most opportune time, following as it did the adoption of the Anglo-Japanese formula at Tokyo⁶³ and that it had relieved an exceedingly critical and dangerous situation insofar as China was concerned. He said that the Chinese people were not unmindful of this most important and decisive step on the part of the United States and expressed the wish that I convey to the President and the Secretary of State the deep appreciation of himself and the people of China. I said I would do so. He then urged that the United States should be prepared to cope with future developments the nature of which he did not specify but which he declared might be forthcoming at any time.

General Chiang then reverted to the Anglo-Japanese negotiation at Tokyo, saying that he is apprehensive as to the outcome of these conversations and observing that China could place little or no dependence on British policy which he said needed stimulus and support from the United States. In this connection he inquired concerning my views of the future course of the Tokyo conversations. I replied that I could not venture a prediction on so difficult a problem.

The Generalissimo then referred to the Anglo-Soviet negotiations for a mutual defense understanding in Europe,⁶⁴ stressed the importance of their successful conclusion as a stabilizing influence in the direction of world peace, and requested that I transmit as from him to the President and the Secretary of State an expression of his hope that they urge upon the British Government the importance and desirability of speedily concluding such agreement. I replied that I would comply with his request.

It is obvious from the Generalissimo's conversation that the American action in denouncing the Japanese treaty had relieved an exceedingly serious situation brought about by the Anglo-Japanese conversations, that he is extremely skeptical as to British plan, and that he relies much on the hope that the United States will stiffen British

⁶² Chiang Kai-shek.

⁶³ For the Arita-Craigie formula, see telegram No. 348, July 21, 6 p. m., from the Chargé in Japan, vol. IV, p. 224.

⁶⁴ See vol. I, section entitled "Anglo-French-Soviet Negotiations . . ."

policy. The Generalissimo appeared to be in good health and spirits, and, in reply to a question, stated that the military situation is satisfactory.

Repeated to Peiping. Peiping please air mail code text to Tokyo.

JOHNSON

711.942/195 : Telegram

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

CHUNGKING, July 31, 1939—11 a. m.

[Received July 31—7 a. m.]

479. Under date July 29 the Minister for Foreign Affairs⁶⁵ issued the following statement concerning denunciation of the treaty of 1911:

“America has always been known for her sense of justice and China always has unswerving faith in the American people.

Secretary of State Hull has given Japan 6 months' notice for the termination of America's treaty of amity and commerce of 1911 with Japan, because it contains provisions 'which need new considerations'. In coming to this decision the American Government has, I am sure, taken into full consideration the great 'disorder in East Asia', from a political as well as commercial point of view, which has been brought about by the Japanese militarists.

The Chinese people welcome the announcement of the termination of this treaty as an indication of the desire of the United States to maintain its position and prestige in the Pacific region. May this prestige [*presage?*] a more definite and positive attitude on the part of the United States Government to do what is in its power to stop international lawlessness and restore peace, confidence and good will among nations.

America is in a position to exert a decisive influence on peace in this and other parts of the world without resorting to war. The strength, the prestige, and the public opinion of the great Republic on the other side of the Pacific, if unequivocally manifested by an overt act, is sufficient to turn the scale in favor of international justice, law and order.”

Repeated to Peiping.

JOHNSON

711.942/202a : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, July 31, 1939—6 p. m.

231. 1. The Japanese Ambassador called this morning at his request. He referred to my note of July 26, in regard to the Treaty of Commerce and Navigation between the United States and Japan, and said that he had called under instruction to ask certain questions.

⁶⁵ Wang Chung-hui.

He inquired what this Government had in mind in regard to negotiating a new treaty. I replied that I did not believe that I could add anything to what I had said in reply to inquiries made by correspondents; that, as I had indicated to the correspondents, this Government's note is couched in well-understood and well-established terms; that the note might best be allowed to speak for itself; and that the entire question pertaining to a new agreement depended upon developments hereafter. The Ambassador then inquired what this Government had in mind in its use of the words "with a view to better safeguarding and promoting American interests". I replied that my comments in regard to the first question which he had asked applied also to this question. The Ambassador thereupon inquired as to what was meant by the terms "American interests" and "new developments". I again referred him to what I had previously said. I added that as Mr. Sayre had informed Mr. Suma the question of giving notice had been under consideration for some time. As the Ambassador was leaving, I said that, if and when developments might place me in a position to make further comments, I should of course be glad to do so and I said that I assumed the Ambassador for his part might in the light of developments be in position to offer comment to me.

2. At the press conference today, when asked about the call of the Japanese Ambassador, I replied that there had been a brief interchange in a general way touching upon the commercial treaty situation but that no details were gone into, no new subject matter was introduced, and no decisions were made.

HULL

711.942/252

The Chargé in Japan (Dooman) to the Secretary of State

No. 4076

TOKYO, August 4, 1939.

[Received August 22.]

SIR: In my telegram No. 368 of July 28, 1939, 1:00 p. m.,⁶⁸ I had the honor to report to the Department a summary of Japanese press reaction to the American Government's notice of the termination of the Treaty of Commerce with Japan. There have been many articles in the vernacular press since that time but these articles have not departed from the general trend indicated in my telegram under reference.

The notice of termination came at a time when relations between the United States and Japan were, in the minds of the Japanese people at least, on a tolerably friendly basis. There remained fresh in their memory the courtesy extended by the American Government in the

⁶⁸ Not printed.

return of the former Ambassador Saito's ashes.⁶⁷ Some papers such as the *Nichi Nichi* and the *Miyako* were quite frank in characterizing the act as an unfriendly one and in suggesting that the United States was either attempting to step into the position of the protector of Chiang Kai Shek or to assist Great Britain in her resistance to Japan. The press in general, however, emphasized the long period of friendly relations between Japan and the United States and pointed out that hitherto the United States had maintained a neutral position during the present hostilities in the Far East. While it would be folly to suggest that the Japanese press is not capable of instigating an anti-American movement as severe as the one recently prosecuted against Great Britain, it is significant to note that the position taken at the present is one of watchful waiting with all papers stating that Japan may now negotiate a new treaty and some, such as the *Asahi*, stating that this situation affords an opportunity by which Japan may press for recognition by the United States of the new situation in East Asia and otherwise revise the basis of relations between the two countries.

Perhaps the predominant note sounded in press comment is that notice of termination was issued without the giving of any prior intimation, such as is normally given when economic considerations require the revision of commercial treaties, and that therefore, the inference is warranted that the motivating causes in the action of the United States were primarily political in character.

It was reported that Mr. Arita⁶⁸ on August 1, stated to the Cabinet that the "American move was largely political, first in order to settle the question of its rights and interests in China, and second as a gesture in connection with the coming elections this fall." He said that the attitude of the Japanese Government would be one of calmly waiting future developments.

There are enclosed copies of English translations of typical editorials appearing in the vernacular press.⁶⁹

It has been stressed for a considerable period of time by the Embassy that the attitude taken by the American Government since the beginning of the conflict in China has produced in the Japanese Government and in the Japanese people a sense of respect and good will toward the United States. The sincerity of such respect and good will has been generally questioned and the impression has widely prevailed that the apparently more favorable attitude shown by the Japanese toward the United States than the attitude which they have shown toward Great Britain is artificial and is intended to discourage concerting of policies and actions by the United States and Great Britain. It has also been suggested that if there is any sincerity in Japanese ex-

⁶⁷ See vol. iv, pp. 455 ff.

⁶⁸ Hachiro Arita, Japanese Minister for Foreign Affairs.

⁶⁹ None printed.

pressions of good will toward the United States, that sincerity is due to the fact that the Japanese Government has prevented its people from knowing that the American Government has consistently protested against Japanese actions in China and has withheld knowledge from the Japanese people of the intensity of the feeling in the United States against Japan. It is true that the Japanese people are not being told of the adverse effects on foreign rights of various economic and fiscal measures taken by them in China, and it is also true that the Japanese people have no conception whatever of the extent to which American properties in China have been bombed. In my view, however, the difference between the attitude of the Japanese toward the United States and their attitude toward Great Britain is primarily due to the fact that the United States has consistently taken in relation to the Japanese Government a position which operated to emphasize that responsibility for safeguarding American rights and interests in China devolves solely upon the United States and that decision when and by what measures those rights and interests are to be safeguarded was one which would be taken by the United States. Great Britain has, on the other hand, only too clearly shown that she relies in the main on a victory by China for the preservation of her rights and interests in China.

I expressed the foregoing views in a conversation which I had with the British Ambassador about two months ago. Sir Robert Craigie took strong exception to my analysis. He warmly denied that there had been any substantial difference in the attitude of his Government and that of the American Government, and he expressed belief that the apparent difference in the feelings of the Japanese was due to a desire to drive a wedge between the United States and Great Britain. In a conversation which I had with him on August 2, Sir Robert on his own initiative recalled our previous conversation on this subject and said that he had come around entirely to my point of view. His assent to my analysis as above described is important, but it is not so important as the fact that a number of Japanese, especially since the beginning of the Tientsin incident, have explained their attitude toward the United States in substantially similar terms.

The reaction in this country to the notice of termination of the commercial treaty has not been manifested in a violent form, and this is due, in my opinion, to the fact that the course which the American Government has followed during the past two years has prepared the Japanese people to expect that the United States might some day and in some manner proceed toward actively protecting its rights and interests in China. The position here today is that in serving notice of the termination of the treaty of commerce the United States is thought to have also served notice that it has now taken a decision to

follow a positive course; but there is complete uncertainty as to the manner in which that positive attitude is to be actively expressed. Every effort is being made by scrutinizing each new act and statement of the United States to define the compass of those issues over which the United States is prepared to take positive action and, conversely, to define the field within which Japanese policy can be pursued without coming into conflict with American policy.

Although the American action was very definitely a shock to Japan, opinion among intelligent Japanese is steadily tending toward a consensus that the potentialities of the future in relations between the United States and Japan need not be so alarming as they appeared inevitably to be a few days ago. The thought is beginning to crystallize that the principal consideration in the action of the United States in terminating the treaty of commerce with Japan was to place itself in as free a posture as possible to deal with the threatening situation in Europe. It is being pointed out that the feeling prevails in the United States that war in Europe will occur toward the end of this year, and that, if the war should occur, American public opinion will demand and thus make feasible a revision by the Congress of the neutrality act ⁷⁰ so as to permit of the shipment of arms and munitions to Great Britain and France; and that when the act shall have been revised the termination of the treaty of commerce with Japan will permit of the rendering of assistance to the democratic states in Europe without, at the same time, helping Japan to prosecute her aims in China.

In the state of uncertainty which exists as to definition of American attitude, a number of speculative explanations are being thrown out with regard to the reasons for the American Government's taking the drastic action of last week, and there is much speculation over the possibility of some binding orientation of Japanese foreign policy on the Rome-Berlin axis.⁷¹ I have not considered that anything useful would be served by telegraphing the character of these conjectures. It might be useful, however, to take note in this despatch of some of these conjectures with the thought that clarification of some of them will have become available by the time the despatch reaches the Department.

Perhaps the most interesting thought expressed by the press in commenting on the action of the United States is the suggestion of the *Asahi* that the American Government has furnished an opportunity for a revision of American-Japanese relations in the light of altered conditions. It is obvious that this refers to obtaining American recognition of the "New Order in Asia", but I would suggest that

⁷⁰ Approved August 31, 1935; 49 Stat. 1081; as amended February 29, 1936, and May 1, 1937, 49 Stat. 1152 and 50 Stat. 121.

⁷¹ See pp. 1 ff.

to the editorial writer and to most of his readers the thought has occurred that negotiations looking toward the conclusion of a new treaty of commerce would afford an opportunity to reopen the so-called Japanese exclusion issue.⁷² The abrogation by the British Government of the Anglo-Japanese alliance⁷³ has received conspicuous attention in Japan during the entire period of the present conflict with China and especially since the situation at Tientsin came to a head; and it would be idle to assume that the Japanese have not as assiduously nursed their feelings over the immigration issue as they have their grievance against the British over the abrogation of the alliance.

There is again much talk of the Cabinet reconsidering an alliance with Germany and Italy. I reported in a confidential despatch some weeks ago⁷⁴ that in certain influential quarters there is no great confidence that such an alliance would afford Japan security, and that the hope was being cherished of finding some way by which Japan could restore good relations with the United States and other democratic nations. It is quite idle to speculate upon the character of the decision, if any, which might be taken by the Cabinet. Undoubtedly there will be taken into account a number of considerations outside the field of my observation, such as possible repercussions of the proposed military agreement between Great Britain, France and the Soviet Union. In any event, I do not expect any further decision in this regard so long as the future trend in relations with the United States is not clarified.

Respectfully yours,

EUGENE H. DOOMAN

711.942/232

Senator Arthur H. Vandenberg to the Secretary of State

[WASHINGTON,] August 7, 1939.

MY DEAR MR. SECRETARY: I do not need to tell you that I have a particularly intimate interest in developments that follow your notice to Japan—regarding the abrogation of the Treaty of 1911—following as it did a resolution to this effect which I presented in the Senate. You are of course in no sense obligated to observe the text of my Senate resolution which preceded your action. But I take the liberty

⁷² For the Immigration Act, approved May 26, 1924, see 43 Stat. 153; section 13 (c) is the so-called "exclusion clause". For correspondence with Japan, see *Foreign Relations, 1924*, vol. II, pp. 333 ff.

⁷³ For the treaty of alliance signed at London, January 30, 1902, see *ibid.*, 1902, p. 514; for its revision on August 12, 1905, see *ibid.*, 1905, p. 488; for second revision for period of 10 years on July 13, 1911, see *British and Foreign State Papers*, vol. CIV, p. 173. Termination was provided for by article IV of the Four Power Pact signed at Washington, December 13, 1921, *Foreign Relations, 1922*, vol. I, pp. 33, 35.

⁷⁴ For extracts of despatch No. 3936, June 7, see p. 43.

of pointing out that the resolution asserted the desirability of this abrogation for the purpose of enacting a new treaty with Japan in the light of 1939 realities.

I want to take the liberty of making it plain that my own theory of abrogation is definitely predicated upon earnest efforts to agree upon a new engagement. I do not need to tell you that I would not be interested in a mere arbitrary prelude to a subsequent one-sided embargo. If such an embargo ultimately becomes indispensable to the adequate protection of legitimate American interests and rights in the Far East, and if the American people are ever deliberately and consciously ready to take what might thus be the first step toward war itself, we can meet that situation when the issue is unavoidably precipitated. I am writing this letter simply to state my own conviction that any such sinister step is not "unavoidably necessary" unless and until we have exhausted every pacific recourse. Therefore, it is my prayerful hope that our own government may promptly indicate to the government of Japan that we are prepared and anxious to negotiate a new treaty of commerce and amity between the United States and Japan for the purpose of resolving—if possible—any controversy between us affecting American interests. It seems to me that Japan's response to a good faith effort of this character on the part of the United States will authentically determine whether Japan is prepared to deal justly with us in the perpetuation of mutually friendly and helpful relationships. Holding this view, I shall greatly appreciate it if I may be kept advised from time to time regarding any developments along these lines which I may appropriately be permitted to know about.

With sentiments of great respect, I beg to remain, with warm personal regards and best wishes,

Cordially and faithfully yours,

A. H. VANDENBERG

123G861/786: Telegram

The Chargé in Japan (Dooman) to the Secretary of State

[Extract]

TOKYO, August 13, 1939—3 p. m.

[Received August 13—8:37 a. m.]

405. . . .

3. The first reaction here to the notice of termination of the commercial treaty was strong but I did not believe that it would necessarily be lasting. That belief is confirmed by observation during the past 2 weeks. As stated in one of my recent despatches⁷⁵ the atti-

⁷⁵ Despatch No. 4076, August 4, p. 564.

tude taken by our Government during the past 2 years has operated to give the Japanese the impression that the United States (unlike Great Britain) relied on no one but itself to protect its rights and interests in China and that it might some day move in that direction. And in this sense the Japanese had been prepared for the shock even though anything so drastic as the termination of the treaty was unexpected. Their present thought seems to be to do nothing while watching carefully for further indications of future American attitude. American stock is still higher than any other. The next few months may bring developments of the most critical character and the presence here of Mr. Grew, with the prestige which he commands in Japan as well as in the United States, would be an incalculable service to our national interests.⁷⁶

DOOMAN

711.942/243 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, August 17, 1939—4 p. m.

[Received August 17—12:55 p. m.]

1178. I have just had a talk with the head of Far Eastern Department in the Foreign Office.⁷⁷ He told me that they have gathered information from a great number of different sources as to Japanese reactions to denunciation by the United States of its commercial treaty, which when brought together indicate three possibilities, in the Japanese view, of developments to follow:

(1) The American intention is to wait for some overt signs from the Japanese that they intend to pay more attention than hitherto to American complaints of Japanese actions as directed against American citizens and interests and then, if the Japanese give more real consideration to American protests, the United States would be prepared to open negotiations for a new treaty before expiration of the 6 months' notice period;

(2) Alternatively the Japanese think that the United States intention may be to clear the air for Government support of the Pittman resolution⁷⁸ at the beginning of the next session of Congress and that the resolution will then take effect immediately on expiration of the 6 months' period. Such action would cut off vital materials the Japanese are at present purchasing from the United States;

(3) Finally, the Japanese are afraid that the American denunciation may be the prelude to even more serious economic measures by the United States than envisaged by the Pittman resolution.

⁷⁶The Department, in its telegram No. 252, August 15, 5 p. m., said it "shares the views expressed in concluding sentence". (123G861/791)

⁷⁷Robert George Howe.

⁷⁸S. J. Res. 123 introduced April 27 by Senator Key Pittman; *Congressional Record*, vol. 84, pt. 5, p. 4821.

With respect to Japanese hypothesis (1) above, the Japanese are afraid that unless they are very careful the United States in negotiating a new treaty will insist on the disappearance of the most-favored-nation clause in order that the United States may be in a position to impose the same sort of countervailing duties on Japanese goods as it has already imposed on German and Italian goods. The Foreign Office observes however that Japanese subsidies are quite different in nature from the German and Italian. They are more covered up and more difficult to spot. The only proof that they know of which could be brought forward of subsidies is in connection with shipping. Certain goods carried in Japanese bottoms are undoubtedly given very favorable rates but commodities as such are not subsidized in the same direct way as German and Italian commodities nor have the Japanese any of the various kinds of currency such as exist in Germany to facilitate a policy of export subsidy.

Regarding Japanese hypothesis (2) the Japanese fear that they have not yet reached the state of autarchy which would make it of no particular importance if the United States should cut off from them commodities of vital importance and they are exploring alternative sources of supply. For instance through the Shah of Iran they have made an approach to the Anglo-Iranian Oil Company for various samples of crude oil to see if the Japanese refineries can handle it. They are also exploring the possibilities of obtaining from Norway and Sweden nonferrous metals now being secured from the United States. The Foreign Office has no proof that the Norwegian and Swedish Governments have been approached by the Japanese but they believe such an approach has taken place.

Regarding hypothesis (3), the Japanese are by no means satisfied that more drastic action on the part of the United States is not a possibility.

All the Foreign Office information on this question indicates that the denunciation by the United States of the commercial treaty has got the Japanese "completely guessing". The official told me that both Lord Halifax⁷⁹ and Sir Alexander Cadogan⁸⁰ desired that their views on the matter be communicated to you and he made a particular point of describing them as strictly confidential. He said further that the Foreign Office would greatly appreciate being informed whether the foregoing conclusions checked with the Department's information or are at variance.

The official then proceeded to describe to me what his own Government is contemplating. Following the denunciation of the American treaty, in reply to a question in Parliament as to what Great Britain

⁷⁹ British Secretary of State for Foreign Affairs.

⁸⁰ British Permanent Under Secretary of State for Foreign Affairs.

was going to do, the Prime Minister⁸¹ stated that the matter was, of course, under consideration but that the Dominions must be consulted. As a matter of fact the Dominions were not consulted until August 14 when a circular telegram was sent to all of them. The United Kingdom Government stated to the Dominions that there are two points for decision in London:

(a) The question of expediency of denouncing the various British treaties with Japan. (The United Kingdom-Japanese treaty of 1911⁸² covers, for essential purposes, all of the Crown Colonies; Canada and Eire are still parties to this treaty. South Africa and New Zealand have their own treaties with Japan. The Australian treaty is being kept in force by periodical exchanges of notes to overcome Japanese infractions of the main treaty, the situation of Australia vis-à-vis Japan being very much the same as that of France. India is now negotiating a new commercial treaty with Japan, and Burma will have to negotiate one in the near future.)

(b) If it should be judged expedient to denounce the British treaties, the question arises as to when the denunciation should take place and on what it should hinge. In the United Kingdom view the British Empire should take parallel action with the United States. The United Kingdom Government desires to keep in step with the United States and to make it clear to Japan that this is British policy. The actual part of denunciation may be in one sense a moral gesture designed to produce a moral effect, but it has one small practical advantage; it would enable Great Britain to refuse to start negotiations for a new treaty until she received satisfaction on other matters.

Regarding the choice of an opportunity for denunciation, the United Kingdom Government thinks that probably the best and most suitable matter of complaint to link with denunciation is the anti-British agitation in China, the expulsion of British subjects from Chinese territory, confiscation of property, et cetera. They think that denunciation on this issue would mark a striking parallel with American action which immediately preceded a stiff note of July 28 [26?]. Anti-British agitation moreover affects British subjects in China from all the Dominions. It also involves the general question of white prestige which is of great importance to some of the Dominions. There are other possible immediate causes which might be utilized for denunciation but in none except the ones above described do the Dominions appear to have the same immediate common cause. In the Tientsin dispute for instance the Dominions are interested only in so far as the situation affects white prestige, the Washington treaties, League of Nations resolutions, et cetera. Also in the difficult question of Chinese currency and silver, the United Kingdom itself is far more interested than any of the Dominions. Moreover the Government here is convinced that whatever may be the final outcome of the Tokyo

⁸¹ Neville Chamberlain.

⁸² *British and Foreign State Papers*, vol. CIV, p. 159.

negotiations, there will be continuing if not intensified anti-British agitation in China and that a point will quite soon be reached when denunciation will fit in conveniently with any action Great Britain may be forced to take. The Government here, however, is quite aware that whatever immediate action may be seized upon for denunciation of the treaty it would be desirable to put in the British notice of denunciation before the impression created by denunciation of the American treaty had faded out.

The United Kingdom Government is now awaiting the views of the Dominions not only on the considerations outlined above which have been put to those Governments, but on their intentions in regard to their own treaties with Japan. The United Kingdom Government will not necessarily be guided entirely by what the Dominions Governments say but as they have all an obvious common interest a full expression of the Dominions views and intentions is desired before any action is taken.

The Dominions have been reminded that in the United Kingdom Government's view whether she denounces her treaty with Japan or not she would still be in a position to take reprisals for damages done to British interests arising out of Japanese disregard of other treaties of an international character to which both Great Britain and Japan are parties. (See Mallet's *aide-mémoire* of January 21st [25th?], 1939,⁸³ numbered paragraph 7 in the copy we have here.)

JOHNSON

711.942/232

*The Acting Secretary of State to Senator Arthur H. Vandenberg*⁸⁴

WASHINGTON, August 22, 1939.

MY DEAR SENATOR VANDENBERG: I thank you for your letter of August 7 in which you refer to your resolution in the Senate suggesting the giving of notice of intention to terminate the treaty of 1911 with Japan, to the notification subsequently given by this Government to Japan, and to a particular feature of your resolution.

In this letter, you have been so good as to give me a statement of your views in regard to the notice of intention to terminate under reference and the course which you feel might appropriately and advantageously be followed henceforth in the light thereof. You point out that your resolution affirmed the desirability of the abrogation "for the purpose of enacting a new treaty with Japan in the light of 1939 realities"; you emphasize the point that your theory of the abrogation was predicated upon earnest efforts to enter upon a new engagement and

⁸³ *Aide-mémoire* of January 25 from the British Embassy, p. 490.

⁸⁴ Prepared on the basis of original "rough draft" by the Secretary of State.

that you would not be interested in "a mere arbitrary prelude to a subsequent one-sided embargo"; and you urge that this Government inform the Government of Japan that we are "prepared and anxious to negotiate a new treaty of amity and commerce between the United States and Japan for the purpose of resolving—if possible—any controversy between us affecting American interests".

I am very glad to have the benefit of your views and suggestions.

In order that we may both have before us a clear and identic recollection of certain important facts in regard to this matter, may I call attention to phraseology which appears in the text of your resolution and phraseology which appears in the text of this Government's notice to the Japanese Government. The first sentence of your resolution reads:

"Resolved, That it is the sense of the Senate that the Government of the United States should give Japan the six months' notice required by the treaty of 1911 for its abrogation so that the Government of the United States may be free to deal with Japan in the formulation of a new treaty and in the protection of American interests as new necessities may require;"

The concluding sentence of Secretary Hull's note to the Japanese Ambassador reads:

"Toward preparing the way for such consideration [i. e., new consideration of certain provisions of the treaty]⁸⁵ and with a view to better safeguarding and promoting American interests as new developments may require, the Government of the United States, acting in accordance with the procedure prescribed in Article XVII of the treaty under reference, gives notice hereby of its desire that this treaty be terminated, and, having thus given notice, will expect the treaty, together with its accompanying protocol, to expire six months from this date."

As you doubtless will have observed, in each case, two reasons or specifications of purpose were given, and these were, though differing in phraseology, the same, in effect, in both documents.

The Government and people of the United States stand for and champion principles of peace, of international order based upon law, and of treaty observance. The Government of the United States has consistently endeavored to protect essential American interests in accordance with rules of law, provisions of treaties, and considerations of justice and fair play among nations. In relations with countries of the Far East, this country's general objectives have been the same as in relations with other parts of the world. In the conducting of this country's relations with China and with Japan since the beginning, in September 1931, of the so-called "Manchuria incident", the Government has been constantly guided by this country's traditional

⁸⁵ Brackets appear in the original letter.

principles. In the presence of extraordinary problems presented in 1931, 1932 and 1933, and again in 1937, 1938 and 1939, the American Government's efforts have been directed toward the same objectives and have been guided by the same principles.

In relations with Japan during recent years, this Government has constantly and persistently sought, by reasoned approach and with patience and restraint, to obtain respect on the part of the Japanese authorities and their agents, operating in China, for the rights and interests of the United States and American nationals. In connection with a great number of incidents wherein there have been involved acts in disregard of American rights which Japan is under obligation by treaty or by international law or both to observe, this Government has made appropriate representations; and on several occasions when representations of a comprehensive character dealing with broad principles of universal applicability have seemed called for it has made such representations.

You are familiar with the course of events in the Far East, and I am sure that I need not endeavor in this letter to lay before you facts of which you are already cognizant regarding developments in that area. Notwithstanding our patient efforts and notwithstanding assurances by the Japanese authorities of respect for the rights and interests of the United States and of American nationals in China, disregard of and interference with those rights and interests has been constant, and the number and variety of instances in which such disregard and interference have been manifested has, during recent months especially, greatly increased.

To cite but one example of the manner in which our efforts to safeguard these interests on a basis of international law and treaty provisions have been unsuccessful: On October 6, 1938, in consequence of continued failure on the part of the Japanese Government to implement its repeated assurances of respect for the principles of the equality of opportunity in China for the trade and industry of all nations, we addressed to the Japanese Government a comprehensive note;⁸⁶ the Japanese reply, dated November 18, 1938,⁸⁷ contained no satisfactory assurances for an immediate amelioration of the situation, and, on December 31, 1938, this Government delivered to the Japanese Government another note⁸⁸ setting forth more fully the position of this Government; and no reply to that note has as yet been given us.

This Government has desired and of course continues to desire that the United States have treaty relations with Japan which will effectively contribute toward safeguarding American interests in general

⁸⁶ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 785.

⁸⁷ *Ibid.*, p. 797.

⁸⁸ *Ibid.*, p. 820.

and in particular. The question of moving toward conclusion of a new treaty must be considered and will be considered in the light of all known facts and circumstances and of future developments.

Again thanking you for your letter, and with cordial regards, I am
Sincerely yours, SUMNER WELLES

711.942/256 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, August 22, 1939—3 p. m.

[Received August 24—6 a. m.]

424. 1. The *Asahi* featured yesterday morning a story of which the following is a summarized translation :

"The action of the American Government in giving notice of termination of the commercial treaty, when considered against the background of the long time friendly relations between the two countries, must be looked upon as an unfriendly act. A committee set up in the Foreign Office has drafted a provisional policy plan in regard to questions relating to the United States and this plan has been presented to the Cabinet. It is still under review but it is understood that further positive measures by the United States will be met with a corresponding hardening of Japanese attitude. Under Secretary Welles informed the press that Senator Schwollenbach's proposal of an arms export embargo⁸⁹ is under consideration. The Japanese view is that such an embargo would be a partial or indirect application of the neutrality act and therefore recognition of the existence of a state of 'war' in relations between Japan and China. In those circumstances Japan could invoke as against American interests the rights of a belligerent with serious effects."

2. Considerable attention has been attracted by a press despatch from New York describing a report which appeared in the *New York Times* under Washington dateline August 20 to the effect that the United States will hereafter take drastic measures to protect its rights and interests in China and will to that end concert with England measures calculated to deprive Japan of war materials.

3. I have had several conversations with Japanese during the last 2 days and notwithstanding the Tokyo story above reported, I have no reason for modifying the opinion which I have previously expressed that the Japanese Government is now awaiting definitive indications of American attitude before deciding what attitude it in turn should take toward the United States.

4. I have several appointments today and tomorrow and I hope subsequently to be in a position to make further comment.

Repeated to Chungking.

DOOMAN

⁸⁹ S. J. Res. 143, introduced June 1; *Congressional Record*, vol. 84, pt. 6, p. 6473.

711.942/243: Telegram

*The Acting Secretary of State to the Chargé in the United Kingdom
(Johnson)*

WASHINGTON, August 22, 1939—10 p. m.

675. Your 1178, August 17, 4 p. m. The Department greatly appreciates receiving your report of the statement of the head of the Far Eastern Department of the British Foreign Office in regard to Japanese reaction to the notification by this Government of desire to terminate its commercial treaty with Japan and in regard to the views of the Foreign Office as to possible termination by the British Government of its commercial treaty with Japan.

The Department offers for your guidance in discussing this subject with officials of the Foreign Office observations as follows:

Our estimate of the Japanese reaction is in general agreement with that of the Foreign Office as outlined in your numbered paragraph 1. Our conclusions are based upon indications that some effort is now being made by the Japanese authorities in China to avoid the giving of cause for the further arousing of American public opinion against Japan so far as this can be accomplished without deviation from the essential objectives of Japanese policy.

On July 31 in reply to an inquiry by the Japanese Ambassador as to what this Government had in mind in regard to negotiating a new treaty the Secretary replied that he did not believe that he could add anything to what he had said in reply to inquiries made by press correspondents; that as the Secretary had indicated to the correspondents this Government's note was couched in well understood and established terms; that the note might best be allowed to speak for itself and that the entire question pertaining to a new agreement depended upon future developments. No further statement has been made.

With reference to the suggestion contained in your telegram that the Japanese are afraid that the United States, in negotiating a new treaty, will insist on the disappearance of the most-favored nation clause in order that the United States might be free to impose countervailing duties, it may be observed that the United States has never considered the most-favored-nation clause in our treaties to be a bar to the imposition of countervailing duties; such duties are imposed not because of the national origins of the goods to which they are applied but because of the payment or bestowal of bounties or grants upon such goods in the country of their production.

WELLES

711.942/271

Senator Arthur H. Vandenberg to the Acting Secretary of State

[WASHINGTON,] August 24, 1939.

MY DEAR MR. SECRETARY: I am indebted to you for your courteous letter of August 22nd in response to my inquiry of August 7th. I am glad to read your authentic recital of our recent difficulties with the government of Japan. I am happy also to note that the purposes inspiring your notice to the government of Japan in respect to the abrogation of the Treaty of 1911 were deemed by you to parallel the purposes set out in my Senate resolution upon the same subject "though differing in phraseology". The thing that concerns me—as "time marches on" under this six months' notice—is whether one of these common purposes is in the process of evolution—namely, "the formulation of a new treaty". It is my view—very respectfully re-asserted—that we could not justify summary action of any nature at the termination of the six months' notice (if at all) in the absence of a vigorous good faith effort on our part toward "the formulation of a new treaty". It is for this reason that I have taken the liberty of inquiring whether these efforts are under way and whether the government of Japan specifically understands that our desire for "the formulation of a new treaty" is at the base of our recent abrogation notice. I realize that negotiations of this nature are an executive function; and I would not wish to seem to be inviting any confidences to which I am not entitled. But I respectfully point out that your letter of August 22nd does not bear upon my question until it reaches the final paragraph, which contents itself with the general statement that my question "must be considered and will be considered in the light of all known facts and circumstances and of future developments". I am unable to determine from this statement whether the government of Japan has been specifically invited to move in the direction of "the formulation of a new treaty". I respectfully re-assert, my own opinion is that this is essential, and that a failure to preserve a clear record upon this point could easily precipitate a completely unsatisfactory status at the end of the six months' notice. I renew my request for information upon this point if I am entitled to receive it.

With sentiments of great respect and highest esteem, and with warm personal regards and best wishes, I beg to remain

Cordially and faithfully,

A. H. VANDENBERG

711.942/271

The Secretary of State to Senator Arthur H. Vandenberg

WASHINGTON, September 1, 1939.

MY DEAR SENATOR VANDENBERG: In reply to your letter of August 24 inquiring whether "the Government of Japan specifically understands that our desire for 'formulation of a new treaty' is at the base of our recent abrogation notice", I may say that I have every reason to believe that the Government of Japan clearly understands that this Government's notice for termination of the treaty was given for the purpose clearly stated in the communication given to the Japanese Embassy on July 26, which purposes also had been clearly stated in your resolution. It stands to reason, and it may confidently be assumed, that both the Government and the people of the United States and the Government and the people of Japan desire that relations between the two countries be on a treaty basis. You of course realize that a treaty of amity and commerce is but one of the many items which form the basis of relations between countries parties thereto; that in a treaty of amity and commerce there are many provisions other than those which relate to commerce; and that, as relations between countries are expected to be regulated by treaty provisions, so, in turn, treaty provisions must be based upon realities of practice and of intention in the relations between the countries which are the parties to the treaties.

I can assure you that we are not failing to preserve a clear record in regard to any feature of relations between this country and Japan.

It would give me great pleasure to talk with you, at your convenience, with regard to essential aspects of the situation and problems involved.⁹⁰

Sincerely yours,

CORDELL HULL

711.942/284

Senator Arthur H. Vandenberg to the Secretary of State

[WASHINGTON,] September 20, 1939.

MY DEAR MR. SECRETARY: I wish to report to you regarding a conversation yesterday with the Japanese Commissioner General to the New York World's Fair. He called unofficially at my office and in a purely, personal way we discussed the relationships between Japan and the United States.

⁹⁰ Senator Vandenberg replied on September 8 that he would "be most happy to discuss this matter with you personally whenever the opportunity permits and whenever you may desire". (711.942/290)

I was impressed with the fact that the Commissioner (who is returning to Japan) is very eager that the abrogation of the Treaty of 1911 shall not terminate or impair or even shadow our friendly relationships between the two countries. I could not escape the conclusion from my conversation with him that a realistic approach to the Far Eastern situation on the part of all concerned might well produce a new treaty which would go far toward pacifying and stabilizing the Far Eastern situation. I realize that my caller could in no sense speak for or bind his Government—any more than I could mine—and he made no pretense of this nature. But I could not escape the feeling that his viewpoint—if at all contagious in Japan itself—should make effective progress possible in the negotiation of a new treaty.

I take the liberty of passing this comment along to you—in line with our previous correspondence on the subject—because of my deep conviction not only that the termination of our own old treaty should be followed by the creation of a new one, but also that there may lie in this field of diplomatic action the greatest and most spectacular contribution which we might make to the peace and the stabilization of the world.

With sentiments of great respect, and with warm personal regards and best wishes, I beg to remain,

Cordially and faithfully,

A. H. VANDENBERG

711.94/1299 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 22, 1939—5 p. m.

[Received September 22—10:25 a. m.]

489. Our 484, September 19, 3 p. m.⁹¹

1. We have had several conversations with members of the Foreign Office apropos of the spate of articles appearing recently in the vernacular press concerning American-Japanese relations. While we have been unable to establish definitely the original inspiration of these articles, it is now apparent the Foreign Office has at least actively participated. In our conversations it developed that individuals in the Foreign Office hold the view that although the public in Japan has been kept fully informed of the definitely unfavorable popular opinion in the United States it is now necessary to prepare the Japanese people against the American Government giving effect to such

⁹¹ Not printed.

opinion when the commercial treaty expires by legislation directed specifically against Japan. Therefore, every opportunity is to be taken we understand to emphasize the possibility of a serious worsening in relations with the United States.

2. The articles now appearing are not inflammatory but they are on the whole pessimistic in tone, being reflective of Foreign Office and big business opinion.

Repeated to Shanghai. Shanghai please repeat to Peiping, Chungking.

DOOMAN

711.942/284

The Secretary of State to Senator Arthur H. Vandenberg

WASHINGTON, September 25, 1939.

MY DEAR SENATOR VANDENBERG: I acknowledge the receipt of your letter of September 20, 1939, in which you were so good as to acquaint me with the impressions gained by you from a recent conversation which you had with the Japanese Commissioner General to the New York World's Fair in regard to relations between the United States and Japan with special reference to the question of concluding a new commercial treaty with Japan.

I am gratified to learn from you of the friendly attitude toward this country manifested by the Japanese Commissioner and I note with interest your conclusion, derived from your conversation with him, that a realistic approach to the Far Eastern situation on the part of all concerned might well produce a new treaty which would go far toward pacifying and stabilizing the Far Eastern situation.

This Government has been mindful at all times of the need of a realistic approach to the Far Eastern situation and has endeavored to act in conformity with that need. Some of the realities in that situation were indicated to you in the letter of August 22, 1939. The desire manifested by the Japanese Commissioner for improved relations between Japan and the United States is of course gratifying. I sincerely trust that those of his countrymen who share his views may influence the Japanese Government to adopt a course calculated to give practical and realistic effect to those views. Such a development would undoubtedly facilitate the negotiation of a new agreement between Japan and the United States on terms which could be expected to be mutually advantageous and adequately to safeguard and promote American interests.

Sincerely yours,

CORDELL HULL

711.94/1320

The Chargé in Japan (Dooman) to the Secretary of State

No. 4149

TOKYO, September 25, 1939.

[Received October 16.]

SIR: I have the honor to refer to the Embassy's telegrams nos. 484, September 19, 3 p. m.,⁹² and 489, September 22, 5 p. m., in regard to a recent profusion of articles in the Japanese press dealing with Japanese-American relations, and to enclose translations⁹³ by the Embassy of representative selections of those articles.

[Here follows report on Japanese press views.]

It would appear that the prime concern of the Japanese with respect to Japanese-American relations at the moment is the possibility that the United States may impose embargo or similar restrictive measures against Japan after the Treaty of Commerce and Navigation lapses. They seem to be deeply aware that their chances of winding up the China affair in a manner favorable to themselves and accomplishing their program for the economic exploitation of China in the changed situation brought about by the European war now depend largely upon an assured supply of essential raw materials from the United States. Japanese anxiety with regard to the future attitude of the United States toward Far Eastern questions has been greatly increased by the belief only recently engendered that the European war not only offers an excellent opportunity to settle the China affair but promises if it is sufficiently protracted to redound greatly to Japan's commercial benefit. In the background, of course, is the fear that the United States may enter the European war on the side of Great Britain and France at an early date, thus nipping in the bud any chance of Japan's pursuing an "independent" or what might be less euphemistically termed a "take what you can get" policy which appears in the present circumstances to be so advantageous to it. Nor do the Japanese rule out the likelihood that the United States, following a traditional policy of over half a century, may take active and positive steps, not even hesitating to use force, to protect its interests in the Far East while sedulously maintaining itself in a state of isolation from European affairs. Despite the pessimistic tone in Japanese press comment with respect to the future of Japanese-American relations it is believed that there is a fairly deep conviction among the Japanese people that Japanese-American differences in the Far East are not irreconcilable and that they do not, as in the case of Anglo-Japanese relations, involve a frontal clash of interests. Moreover, there is still an undercurrent of opinion that believes that some new agreement can be reached with the United States before the present Treaty

⁹² Not printed.

⁹³ None printed.

of Commerce and Navigation becomes inoperative. While it is still too early to forecast the exact mold into which Japanese public opinion vis-à-vis the United States will fall within the next few months, the appointment of Admiral Kichisaburo Nomura, a man well acquainted with the American point of view and already possessed of a reputation for reconciling Japanese-American views, as Minister for Foreign Affairs, may be taken, it is believed, as a straw in the wind.

Respectfully yours,

EUGENE H. DOOMAN

894.002/399 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 26, 1939—noon.

[Received September 26—12:50 a. m.]

491. Our No. 490, September 25, 4 p. m.⁹⁴

1. The Japanese press is unanimous in its praise of the appointment of Admiral Nomura as Foreign Minister, and alluding to the Admiral's past association with, and wide acquaintance in, the United States,⁹⁵ sees in his appointment the determination of the Government to concentrate all its efforts on the problem of readjusting Japanese-American relations at a time when those relations are facing a serious test.

2. Concurrent with the comment on Admiral Nomura's appointment the press expresses the opinion that widespread changes will take place shortly in Japan's Missions abroad and regards the replacement of Horinouchi as a foregone conclusion. There has been considerable speculation as to Horinouchi's successor, but the name which has been most widely mentioned is that of Mr. Yosuke Matsuoka, Japan's delegate to the League of Nations at the time of the Manchurian controversy, and, most recently, president of the South Manchuria Railway Company.

Repeated to Peiping, Peiping please repeat to Chungking, Shanghai.

DOOMAN

701.9411/1225a : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, September 27, 1939—6 p. m.

295. Your 491, September 26, noon, paragraph 2. The Department has noted a number of press despatches that the Japanese Government contemplates replacing Horinouchi as Ambassador here.

⁹⁴ Not printed.

⁹⁵ Admiral Nomura was Japanese Naval Attaché at Washington in 1921.

The Department does not know whether these reports have any relationship to various indications which it has noted that some powerful elements in Japan still regard the problem of improving Japanese-American relations as one to be dealt with primarily by vigorous advocacy of Japan's cause through recourse to propaganda methods directly among the American people rather than by action on the part of Japanese agencies toward implementation of the repeated assurances which the Japanese Government has given that American rights and interests in China will be respected.

The Department is of the opinion that in the long run the cause of good relations between any foreign country and the United States would not be best served by the sending by that country to the United States of an Ambassador charged with and selected with a view to his qualifications for special activity, propagandist in nature, out of keeping with diplomatic character.

HULL

123G861/812 : Telegram

The Secretary of State to the Ambassador in Japan (Grew) ⁹⁶

WASHINGTON, October 7, 1939—3 p. m.

303. In further reference to your proposed address: ⁹⁷ While we realize that you intended upon returning to your post to give further thought, in the light of any new trends that may have developed in Japanese attitude and opinion, to the manner in which the Japanese might be expected to react to your proposed address, we are sure that you will appreciate that a primary consideration should be the preservation and strengthening of your wholesome influence with the Japanese Government.

HULL

123G861/814 : Telegram

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

TOKYO, October 16, 1939—11 a. m.

[Received October 16— 2:40 a. m.]

524. 1. Department's 303, October 7, 3 p. m., is very highly appreciated.

2. After most careful consideration I have reached the conclusion that favorable results are more likely to accrue from informal approaches to influential individual[s] and groups than by the public controversies which I now realize would be stirred up by my proposed address, with the inevitable risk of undesirable irritation and friction.

⁹⁶ Mr. Grew returned to Tokyo on October 10 from home leave.

⁹⁷ For the address before the America-Japan Society, Tokyo, October 19, see *Foreign Relations*, Japan, 1931-1941, vol. II, p. 19.

This seems to me to be particularly true in view of the present noticeable trend in Japanese attitude and opinion towards building up better relations with the United States. I believe this to be one of the fundamental policies of the present Cabinet⁹⁸ and it would therefore now be unwise to take any step which might conceivably embarrass the Government in that endeavor, especially as the Cabinet is at present undergoing heavy weather arising from the recent Foreign Office crisis.

3. Steps are already being taken to arrange a meeting for me with the Prime Minister and with certain other influential persons. I also expect soon to seek an interview with the Foreign Minister, delayed owing to the recent crisis in the Foreign Office. Today I am to meet the Japanese-American Trade Council. In all these meetings I expect to use orally and informally some or all of the substantive parts of the draft address and thus to aim at its main objectives without the risk of public (and military) irritation.

4. My address before the America-Japan Society on October 19 will therefore aim to avoid controversial material although something will have to be said in general terms regarding the present attitude of the American Government and public toward Japan.

5. The fact that both Admiral Nomura and Kato, the New Vice Minister for Foreign Affairs, are both believed to be friendly to the United States and that both are personal friends of mine leads me to hope for constructive results from our future endeavors.

GREW

711.942/291 : Telegram

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

TOKYO, October 16, 1939—5 p. m.

[Received October 16—7 a. m.]

528. The *Asahi* attributes the following statement concerning American-Japanese relations to Premier Abe at his press interview yesterday. All papers carry substantially the same statement:

“Although I have been and am giving much thought to the problem of the abrogation of the treaty of Commerce and Navigation of 1911 between the United States [and] Japan, I cannot as yet make any statement about it. The validity of the treaty once abrogated cannot be temporarily prolonged; but it may be possible to conclude a *modus vivendi*.”

Repeated to Shanghai. Shanghai please repeat to Peiping and Chungking.

GREW

⁹⁸ Gen. Nobuyuki Abe became Japanese Prime Minister on August 30.

711942/311

Memorandum by the Assistant Secretary of State (Grady) of a Conversation With the Commercial Secretary of the Japanese Embassy (Inouye)

[WASHINGTON,] October 18, 1939.

Mr. Inouye called this morning by appointment. He stated that he had spent more than one-half of his life in the United States and had devoted his energies during most of that time to the building up of trade between his country and ours and that with the termination of the American-Japanese treaty the result of these efforts would seem to be lost. He said that he sympathized with the complaints which our Government had made regarding the treatment of American business interests in China and that he himself had made efforts to correct certain matters concerning which we had made representation. He referred to tung oil and handkerchiefs. He said that it was his sincere belief that conditions would steadily improve with reference to the treatment of our interests but that the time was rather short in which to correct the situation fully before the six-month period for the abrogation of the treaty expired.

Mr. Inouye said that the complaints we had made were based on army activities and were not confined to our trade and nationals but were general, affecting all foreign interests in China, including Japanese trade interests. In a word, he took the position of agreeing with our position but pleading for patience on our part while efforts which his Government was making would have time to bear fruit.

I replied that I hoped there would be a rapid and satisfactory improvement in the treatment of our trade and nationals; that we had spent many years in building up our trade in China and did not intend to withdraw; and that independent of complaints which our Government had made, I personally had heard on the Pacific Coast from business firms of my acquaintance that they were being gradually pushed out of China in the interest of Japanese firms.

He said that he would like to have us feel that he was at our service to present any facts to his Government regarding the experiences of our nationals. I told him that I thought his Government was fully supplied with facts.

He said he was anxious to build up good will between the two countries, and I replied that that would be a fairly simple matter if the Japanese authorities would see that our trade interests were adequately protected in the carrying on of their legitimate activities.

He was clearly concerned as to what we would do when the treaty ceases to exist, but I made no comments whatever on this point. The discussion was very friendly but very frank.

H[ENRY] G[RADY]

123G861/815 : Telegram

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

WASHINGTON, October 18, 1939—6 p. m.

318. Your 524, October 16, 11 a. m. The Department approves your decision to avoid making the contents of your impending address such as would run the risk of causing undesirable irritation and friction. The Department is confident that you share its view that there should be no concealment anywhere of the fact that the people of the United States view with disapproval the program upon which Japan's military leaders have embarked and are engaged of setting up, on the basis and by use of armed force, a political hegemony which the Japanese describe with the term "a new order in Asia", and that we disapprove both the objective and the methods. We feel that it would be helpful for you to give an extended account of your many contacts and your widespread observations of public opinion during your holiday and to indicate that the American people are well and comprehensively informed regarding what is happening in China; and for you to give a precise account of the present attitude of the American people. We suggest that you include a statement along the lines of the suggestion conveyed in paragraph 11 of the Department's 304, October 7, 4 p. m.⁹⁹ We believe that cataloguing of and argumentation regarding specific complaints should be avoided but it should be clearly indicated that there are important and fundamental matters at issue. We feel it desirable that the Japanese people as well as the Japanese Government be brought somehow to realize that the American people are perturbed not only over Japanese interference with the persons, the property and the legitimate material interests in general of American nationals in China but, and to even greater extent, over the implications of the use of armed force in pursuit of national policy whether in Asia or elsewhere.

The above is only by way of suggestion and not by way of prescription. Department is confident that what you decide to say will be discreetly said and be helpful.

HULL

123G861/816 : Telegram

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

TOKYO, October 19, 1939—8 p. m.
[Received October 19—10:15 a. m.]

534. 1. Department's 318, October 18, 6 p. m. Section 1 was decoded and handed to me after I had left the Embassy for the America-

⁹⁹ Not printed. In this paragraph the Department suggested criticism of Japanese efforts to control Chinese territory and resources, thereby creating a preferential position contrary to the Open Door policy (123G861/811).

Japan Society luncheon; section 2 arrived after the luncheon and speech were over.

2. The address covered in general all of the Department's desiderata as expressed in its telegram. It was by far the strongest speech that I have ever made in Japan. I outlined the cardinal principles of American policy, including the settlement of international issues by orderly processes, equality of commercial opportunity et cetera, and presented a cursive account of specific Japanese policies and actions which cause American resentment. These two sections of the address were intended to bring the differences between respective American and Japanese policies and objectives into clear relief and I believe that this method of approach will have better reception and more beneficial effects than a direct frontal attack on Japanese policies and actions would have had.

3. In view of the considerations advanced in my 524, October 16, 11 a. m., I am not giving the text to the local press. In any case it is shortly to be published in pamphlet form for the members of the America-Japan Society. I have given the text to the Associated Press and the United Press.

4. I feel that Dooman can more appropriately convey to the Department than can I his own observations and those of the other members of the staff of the general reaction of the 200 or more members of the society who were present at the luncheon, both Japanese and American.

5. Following from Dooman:

The members of the staff had been asked to observe carefully the Japanese present at the luncheon while the speech was being delivered and to elicit comment from Japanese afterwards. Although the address took 40 minutes to deliver it was noticed that the entire audience followed it intently. In view of the strong and protracted applause after the conclusion of the address, the fact that there was no applause during delivery indicates how closely the address was followed. Only one Japanese left the room during the address and he is a retired army officer. About 20 Japanese were approached by us after the luncheon and the comment made in every case was one of enthusiastic approbation. Among those made to me by Japanese were: "The most courageous speech I have ever heard"; "a splendid speech which will clear the air". The American members of the society were emphatic in their support of the address and many expressed gratified relief that the entire scope of problems arising out of American-Japanese relations had been presented to the Japanese people for the first time in a clear and precise form.

GREW

123G861/822 : Telegram

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

TOKYO, October 23, 1939—6 p. m.
 [Received October 23—9 : 32 a. m.]

542. 1. A highly placed Japanese in whom we place entire confidence informed me today that my address before the America-Japan Society has left a profound and lasting impression in the highest quarters. He said that the Emperor's personal advisers including Yuasa (Lord Privy Seal), Matsudaira (Minister of the Imperial Household), and Makino, and the opposite factions and Minister of War can be regarded as a group which will work actively for the elimination of specific Japanese measures and acts injurious to American nationals and their interests in China.

2. My informant confirmed our belief that the prevailing thought here had been that a condition might arise (the participation of the United States in the European War) when the same tactics which are being employed with success against Great Britain could be employed against the United States, that is, the removal of stopping of such specific Japanese measures and acts could be put to profitable use in the direction of securing modification of the American attitude and policy vis-à-vis the Chinese Government. (This point of view is boldly put forward today in two press articles quoted in our 543, October 23, 7 p. m.¹)

He said that the Minister of War had recently begun to argue against the pursuit of the course above described; and that my speech had given great weight to the arguments of the Minister of War and of those who think as he does and for this reason could not have been better timed. My informant warned me against assuming that there would be such modification of basic Japanese objectives in China as to bring about in the near future the removal of fundamental differences between the United States and Japan in respect of principles and policies. It was, however, felt here that the imminent danger in American-Japanese relations arises out of the resentment and anger in the United States which are being caused among other considerations by specific Japanese measures and acts injurious to American nationals and their interests in China; and that, if what might be termed the emotional element causing the tension in those relations can be removed, there will be time available for discussion and eventual solution of the basic issues.

3. My informant was highly complimentary of the manner in which the release in Japan of the text of the address had been handled. He said that it is being widely read and studied.

GREW

¹ Not printed.

711.94/1322: Telegram

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

WASHINGTON, October 24, 1939—6 p. m.

326. Your 543, October 23, 7 p. m.² With reference to indications in the press articles quoted by you that the Minister for Foreign Affairs expects to engage in informal talks with you looking toward an adjustment of Japanese-American relations, I was asked various questions in regard to this matter at my conference on October 23 with press correspondents. I said in reply to specific questions that I had nothing more in mind by way of comment than the correspondents would have in mind in regard to the projected talks mentioned; that I had nothing new on whether the Japanese intended to take up the question of a possible new treaty; and that there was nothing that I could say which would be helpful in regard to the possibility of there being negotiated a *modus vivendi*.

Should the Foreign Minister bring up with you the subject mentioned in the first sentence of the foregoing paragraph the Department relies upon your judgment and your knowledge of the general attitude of this Government in regard to questions underlying American-Japanese relations as to what you should say in the presence of such an approach. The Department feels, moreover, that, as it is impossible to anticipate the form which such an approach might take, it would be impracticable for it to endeavor to formulate precise instructions in advance. Should the Minister for Foreign Affairs bring up the question of a new commercial agreement, it might be advantageous for you to be in position to say that you are without instructions, and the department suggests that you may wish to indicate to the Foreign Minister that you must refer that matter to your Government for its consideration.

HULL

711.942/303

Memorandum by the Adviser on Political Relations (Hornbeck) of a Conversation With the French Ambassador (Saint-Quentin)

[WASHINGTON,] October 27, 1939.

Subject: Inquiry regarding this Government's intention in connection with the termination of the treaty with Japan of 1911 and the question of negotiating a new treaty.

The Ambassador called at his request. He made inquiry as indicated in the subject entered above. I said that this Government's thought had been indicated in the text of the notification given to

² Not printed.

the Japanese Embassy on July 26 and in statements which the Secretary of State had made in reply to many inquiries, statements to the effect that future action will depend on future developments. I said that there seems to be anxiety in a number of quarters as to what the situation may be when the treaty is terminated; that this anxiety, while it of course has some bad effects in some quarters, is apparently having some good effects in some other quarters; that we are watching all developments; that we of course do not expect to go on forever without having a new treaty; that trade exists, generally speaking, before treaties are made and trade continues after treaties are terminated; that, if there is neither concluded a new treaty nor enacted new legislation before January 26 next, the one definite and certain effect of the termination of the treaty will be the freeing of the hands of the American Government from the restricting obligations of the treaty; and that I am not in position to predict what may happen before that date, or after that date, either in the Far East or in this country.

There followed some general discussion of the situation in the Far East.

Toward the end of the conversation, I asked the Ambassador casually whether he had had anything new from his Government on the subject of the foreign armed forces in China.³ The Ambassador said that he had had nothing whatever. I made the observation that there have been indications during recent weeks of a tendency on the part of the Japanese to relax their pressure upon foreign interests in China. I said that we felt inclined to take to ourselves some credit for this fact. I mentioned expressly our having let be known that we do not intend to withdraw our armed forces from any of the points at which they have been and now are stationed in China. I indicated that I assumed that the French Government was not overlooking and would give due consideration to these facts.

STANLEY K. HORNBECK

711.94/1327 : Telegram

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

TOKYO, October 30, 1939—7 p. m.

[Received October 30—9:37 a. m.]

561. Our 560, October 28, 7 p. m.⁴

1. Discussion in articles in the vernacular press in regard to the holding of conversations between the Foreign Minister and myself continues. It is taken for granted that the conversations have already

³ See also pp. 232-330, *passim*.

⁴ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 30.

been arranged and that there is nothing to do but to set the date. Kato, the new Ambassador at Large to China, is reported to have been ordered, while en route to his post, to return to aid in the preparations now said to be taking place.

[Here follows report of Japanese press views.]

4. At today's press conference the Foreign Office spokesman ⁵ denied that Japan had any intention at the present time of initiating discussions with Great Britain or the United States and described articles to that effect in the vernacular press as "pure imagination". While the Foreign Minister may see Mr. Grew this week, the meeting will not be for the purpose of formal negotiations, the spokesman said. He added that forecasts in the Japanese press that the opening of the Yangtze and Pearl rivers would be offered to the United States by the Japanese Government as a *quid pro quo* for a new commercial treaty were absurd. The spokesman said that the press had ignored completely the most important factor in the clarification of the present situation, the establishment of a new central government in China at an early date. The Foreign Office informed us, in reply to a request for elucidation of Suma's statement summarized above, that the holding of an *ad hoc* conference or series of conversations for the settlement of outstanding American-Japanese issues is not contemplated; that it had to be assumed that such questions would be discussed at some future time; and that when they were discussed they would be taken up in normal way through the usual diplomatic channels.

Copies by airmail to Shanghai, Peiping. Shanghai requested to repeat to Chungking by naval radio.

GREW

711.942/336

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

No. 2337

PEIPING, November 2, 1939.

[Received November 29.]

SIR: I have the honor to report that, since the announcement by the State Department in July of intention to terminate the 1911 Treaty of Commerce and Navigation between the United States and Japan, a number of American citizens in the occupied areas, particularly missionaries residing in the interior, have expressed to the Embassy some apprehension over their safety and welfare in the event that, after the expiration of the treaty, the United States should take action which might arouse ill-feeling against Americans among Japanese military and civilians in the occupied areas. This apprehension has

⁵ Yakichiro Suma, former Counselor of the Japanese Embassy in the United States.

been more evident since the recent speech delivered by Ambassador Grew at Tokyo.⁶ The Americans who have brought this matter to the attention of the Embassy stated that they were in thorough agreement with the policies of the United States Government, but several of them, and especially those with families in the interior, have expressed the hope that, if possible, they be given some notice by the American authorities if any measures are contemplated by the United States Government which might arouse strong anti-American feeling among the Japanese in the occupied areas.

The Americans in question have been informed that while, of course, no assurance could be given that Americans would receive prior notice of measures by the United States Government, the State Department was no doubt giving full consideration to all phases of the situation in the Far East, and, in particular, to the welfare and safety of American citizens.

Respectfully yours,

For the Ambassador:
FRANK P. LOCKHART

711.94/1334: Telegram

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

Tokyo, November 4, 1939—9 p. m.
[Received November 4—1:30 p. m.]

574. 1. In my conversation today with the Foreign Minister⁷ the procedure set forth in paragraphs 4 and 5 of my 562, October 31, 2 p. m.⁸ was closely followed. In addition to the two documents mentioned I left with the Minister a chronological statement of our written representations to the Japanese Government since the commencement of the present hostilities in China showing which of those representations have been answered and which have not been answered. A prefatory page states that this list does not necessarily present a complete accounting of instances in which American citizens or American rights or interests have suffered interference, discrimination, indignities or damage as a result of Japanese activities. The recapitulation shows that of 382 representations made 256 have not been acknowledged. I pointed out to the Minister that not all or many of the 116 replies received could be regarded by us as satisfactory. In the case of 10 representations replies were not necessarily required. I requested the Minister to be good enough to read all of these documents in order to obtain a clear picture of the situation.

⁶ On October 19, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 19.

⁷ See the Ambassador's memorandum of November 4, *ibid.*, p. 31.

⁸ Not printed.

2. In the course of my presentation I said that in my opinion the coming months might be irregular in American-Japanese relations and I urged with all earnestness that steps be promptly taken to implement the assurances repeatedly given by the Minister's predecessors that American rights and interests in China would be respected.

3. The Minister many times read from a document presumably prepared by his staff. He expressed regret for the delay in receiving me which was due to the fact that he had only recently taken office and had been obliged to familiarize himself with the problems thereof. He spoke pleasantly of my work during the past 7 years in the interests of Japanese-American relations and of the report of my recent visit to the United States as expressed in my speech October 1 [19] before the America-Japanese Society. He said that he fully shares my desire for better relations between our two countries. He said that in international relations both sides must have full appreciation of the standpoint and views of each other. Both the United States and Japan are stabilizing influences in their respective regions and he realizes that both desire to remain apart from the disastrous effects of the European war.

4. The Minister said that there appears to be a misunderstanding on the part of the United States that Japan intends to drive American interests out of China. I replied that quite apart from any future intention the fact remains that American interests are being driven out of China. The Minister observed that American assistance in the reconstruction of China is going to be absolutely indispensable.

5. The Minister requested us to bear in mind the following points:

(a) Japan is engaged in warfare on a scale unprecedented in Japanese history and great stakes including the expense of many lives and much treasure are involved. Japan's paramount object is to convert an anti-Japanese China into a China sympathetic to Japan. In the Minister's personal opinion Japan and China must live in good neighborhood and prosper in a common way. If third powers help China to antagonize Japan, stabilization will be impossible.

(b) The Minister expressed the hope that the United States will give better appreciation of the extent to which the Japanese authorities in China are endeavoring to protect American property in China. They are doing their best under abnormal and difficult conditions. The United States is evidently not satisfied but the Minister hopes to give concrete facts of the care taken. This referred to bombings and other encroachments. I mentioned the subject of Japanese monopolies. The Minister said he thought that such monopolies were set up purely for purposes of price control.

6. At the end of the conversation the Minister said that he was now discussing these various matters with his colleagues in the Cabinet and with the Prime Minister.

7. We then agreed on a communiqué to the Japanese press stating simply in effect that we had explored the field of Japanese-American

relations in a mutually constructive spirit. He, however, authorized me to tell the American press correspondents that I had presented the American point of view in general and in detail. This was done.

GREW

711.94/1335 : Telegram

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

TOKYO, November 6, 1939—6 p. m.
[Received November 6—7:58 a. m.]

581. The Foreign Office spokesman at his regular press conference with the foreign correspondents today, referring to reports in the American press that threats of economic pressure by the United States upon Japan had been implied by me in my conversation with the Foreign Minister on November 4, stated that no threats of any kind had been raised by either of the participants in the conversation. The spokesman also denied again newspaper reports that the conversation was the first of a series looking toward the adjustment of Japanese-American relations or that any formal negotiations with the United States were under contemplation.

By air mail to Shanghai, Peiping. Shanghai requested to repeat to Chungking by naval radio.

GREW

711.94/1338 : Telegram

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

TOKYO, November 8, 1939—9 p. m.
[Received November 8—11:35 a. m.]

584. At press conference this morning, Suma, new Foreign Office spokesman, is reported by the press to have asserted to foreign correspondents that "Japan will not be able to remain indifferent" if the Vinson proposal for a greatly enlarged American Navy,⁹ is approved by the Congress. Although declining to elaborate on this statement, he explained that inasmuch as the measure has not yet passed "the stage of a proposal it does not yet constitute a stumbling block to the improvement of amicable relations between the two countries."

Answering a question at the same conference regarding the reported predictions of Senator Pittman that the Congress would pass an embargo on exports to Japan unless American-Japanese relations improved before the expiration of the Treaty of Commerce, Suma stated that the matter is not new as the Senator has been talking of such

⁹ H. R. 4278 introduced February 17 by Representative Carl Vinson, of Georgia; *Congressional Record*, vol. 84, pt. 2, p. 1568.

an embargo for a long time, and referred in that connection to a warning attributed to Senator Vandenberg, who, he said, represented not only the Republican Party but also the sentiment of important business leaders, that it would constitute a provocation to Japan. Suma went on to say that the attitude in Japan now is to maintain as amicable relations as possible with the United States but stated that if the embargo talk evolves into a law there is fear of its impairing relations between the two countries, as he believed that an embargo would be interpreted by Japan as provocation on the part of our Government. He then repeated the familiar thesis that issues between Japan and third powers are due to the abnormalities and large scale hostilities in China and that "the establishment of the new central government in China would do much to clarify the situation in East Asia."

Suma informs the correspondents that no arrangement had been made either for a second talk between the Foreign Minister and myself,¹⁰ or for a resumption of Anglo-Japanese negotiations regarding the Tientsin issue.

GREW

711.94/1348 : Telegram

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

TOKYO, November 21, 1939—6 p. m.

[Received November 21—10:12 a. m.]

615. 1. I had last week a long conversation at his initiative with the Japanese gentleman mentioned in Department's 414, December 14, 11 a. m., 1938,¹¹ on the subject of American-Japanese relations. In his own interest, n. b., not for reasons of his own personal safety, it is highly important that his name be omitted from the cabled records. In the Embassy's records I am referring to him as "Mister X".

2. We discussed in its broad aspects the problem of restoring American-Japanese relations, the position which I took being substantially along the lines of my address of October 19. Following this conversation he presented to me through a trusted mutual American friend a proposition of which the following are the salient features:

(a) Although Japan's special relations with Germany and Italy have been greatly spent, there are still some people who believe that Japan's interests require that a Japanese-German-Soviet axis be developed and are working hard in that direction. On the other hand, there are compelling reasons for Japan to proceed as quickly as possible toward associating itself on terms of mutual friendship and

¹⁰ For report of first conversation, see telegram No. 574, November 4, 9 p. m., from the Ambassador in Japan, p. 593.

¹¹ Not printed; the Japanese mentioned was Yoshisuke Aikawa, head of the Japan Heavy Industry Co. at that time.

confidence with the United States and Great Britain. In Mr. X's view the most practicable method of bringing about that desired relationship with the democratic powers would be through the setting up of some plan of economic and financial cooperation between Japan, on the one hand, and the United States and Great Britain on the other.

(b) He believes that the army is looking for some tangible and plausible excuse to retire from China with a minimum loss of face. A plan of economic cooperation with the United States would furnish such excuse. He is convinced that the principle of the Open Door can be firmly established and that on such a basis, together with adequate guarantees and security, it would be practicable to work out some specific plan combining both economic and political features. Such features would on the one hand provide satisfactory assurance with regard to principle of equality of opportunity and on the other hand would provide the American financial support necessary for the development of China. To discuss this question he seeks encouragement to proceed promptly to Washington.

3. Mr. X sent word at the same time that he was about to leave for Manchuria and wished to have an expression of my opinion before his departure. I returned a message through the above named channel that a condition which would permit of consideration of his view does not now exist; that I could not predict when such a condition would come about; and that I could not encourage any optimistic expectation with regard to character of my reply if and when made.

4. A full report will go forward in the pouch leaving today.¹² In order that the Department may consider this matter in correct perspective on the basis of the brief description above presented, it should be recalled that Mr. X has close connections with the Government through the large quasi-official companies which have been placed by the army under his control. He has furthermore endeavored to convey to me the impression that he is in close touch with the Government which he says is at present "floundering" and earnestly seeking a way out of the China imbroglio.

GREW

711.94/1349 : Telegram

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

TOKYO, November 21, 1939—9 p. m.
[Received November 21—1:08 p. m.]

616. 1. A highly placed Japanese has called on me twice within the past few days immediately after seeing the Prime Minister and in anticipation of a further interview with Prime Minister shortly. He said that the Prime Minister is profoundly anxious to improve

¹² Not printed.

Japanese-American relations but that "he does not know what to do". He would like to open the Yangtze to American navigation and trade but such a step had been found to be strategically and practically difficult at the present time. My informant asked what other step or steps could be taken which would help to change the anti-Japanese atmosphere in the United States. He added that many influential Japanese, some of whom he named, were equally anxious to conciliate the United States and were actively studying the question, but that they also "did not know what to do".

2. My informant then informally approached what was on their part the main purpose of his two visits. He said it was felt by his friends, presumably including the Prime Minister, that our Government should meet Japan half-way by taking steps which would strengthen the hand of the Japanese Government and facilitate its efforts towards improving relations with the United States. These friends were seriously worried at the prospect of a possible treatyless situation between the two countries. What could be done to open negotiations for a new treaty?

3. In reply I said that this question had not been broached to me officially and that if it should be broached I could only take it under reference. I mentioned the Secretary's announcement at the time of the denunciation.²³ I then talked at length in regard to questions underlying American-Japanese relations along the lines of my speech of October 19 and my interview with the Foreign Minister on November 4, adding my comment to the following effect: The settlement of a few individual issues and incidents while gratifying will in itself by no means serve to place American-Japanese relations on a firm footing especially as new issues and incidents in derogation of American legitimate rights and interests in China are arising almost daily. Several of these new issues and incidents I mentioned specifically by way of illustration. I said that the opening of the Yangtze, while important, would meet only one issue among many issues. Certain fundamental differences in our respective points of view would have to be solved before our relations could be placed on a firm basis. In the meantime the American Government and people would expect something more than pious assurances of intention with regard to Japanese support of the principle of equal opportunity in China, in other words they would desire concrete evidence of progressive abatement in the present system of a closed economy in large areas in China working exclusively in Japanese interests. I furthermore suggested that the Prime Minister might wish to call for the documents left with the Foreign Minister on November 4 and to study them.

²³ For the Secretary's press conference statements, see Department's telegram No. 223, July 27, 6 p. m., p. 561.

4. While I have had many recent similar talks, the foregoing conversations are reported at this considerable length because I have no doubt that my visitor was exploring the situation informally but directly on behalf of the Prime Minister himself.

GREW

711.94/1359 : Telegram

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

WASHINGTON, November 22, 1939—7 p. m.

367. In view of reports appearing in the American press that preliminary conversations are taking place at Tokyo looking toward the negotiation of a new commercial treaty and that you are "fully acquainted with the concessions" which this Government would make, I read at my press conference today the statement quoted below, saying that I was making the statement for the purpose of clarification in view of confusion which seems to exist with regard to the problem of relations between the United States and Japan.

"The American Ambassador in Tokyo is, and has been over a period of many years, constantly in communication with the Japanese Foreign Office on the subject of relations between the United States and Japan and problems which arise in connection therewith.

There are not going on either in Tokyo or in Washington negotiations in regard to commercial treaty relations between the two countries.

This Government has not instructed Ambassador Grew on the subject of any specific feature of possible future treaty relations.

The Government of the United States has repeatedly made clear that such matters will depend upon developments.

This Government is, of course, giving attention to every development and every fact bearing upon relations between the two countries and known to it, and is carefully studying all angles of the various problems presented."

Copies of the statement were subsequently supplied to the press.

WELLES

711.94/1355 : Telegram

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

TOKYO, November 27, 1939—noon.

[Received 2:05 p. m.]

633. Our 615, November 21, 6 p. m.

1. On November 24 Dooman had a conversation lasting 4 hours with the Japanese to whom I have referred as Mr. X. Dooman explained that American interest in China is not confined to economic

and cultural fields but includes, along with treaty rights and interests, a lively sympathy and concern in the desire of the Chinese people for a stable form of government capable of resisting encroachment from whatever direction. He made it clear that it would be illusory to expect that American capital would be forthcoming for the development of the occupied areas in China by the Japanese primarily if not exclusively for their own benefit.¹⁴

2. At the conclusion of the conversation Mr. X said that he realized that there would be little if any possibility of his proposition being favorably considered in American official circles but that nevertheless he might decide to visit the United States if such visit were not likely to be productive of harm.

GREW

711.942/327 : Telegram

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

TOKYO, November 27, 1939—7 p. m.
[Received November 27—1:10 p. m.]

630. 1. Members of my staff and I have recently held informal talks with well informed Japanese, including officials, on the problem of improving American-Japanese relations in anticipation of the approaching expiration of the treaty of commerce and navigation. The recurrence of certain thoughts in the statements of these Japanese is probably significant in the sense that these thoughts can be correlated with certain definite facts and worked out as a program to be followed out by the Japanese Government. We have arranged these thoughts and facts in some form of logical sequence with a view to forecasting to some degree the course which the Japanese Government will try to set, as follows:

(a) The issues between the two countries fall into two categories, the first being those which directly involve American nationals in China and American economic, financial, and cultural interests, while those in the second category comprise problems which although less directly affecting American material interests are fundamental in character. Most of the issues of the first kind can be adjusted, that is to say, bombings of American properties can be stopped, interference with American business can be eliminated, et cetera, and there can be brought about a condition of which it might be said that American tangible interests and rights were being respected. If however, the restoration by Japan of conditions reconcilable with all the principles established under the Nine Power Treaty¹⁵ is to be a condition precedent to the negotiation of a new commercial treaty, the possibility of

¹⁴ The Department's telegram No. 381, November 30, 5 p. m., approved the Ambassador's effort "to discourage the proposal made to you".

¹⁵ Signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

Japan meeting any such condition, must be ruled out, for the reason that the evacuation of the areas and other measures necessary to give effect to the principles of respect for China's territorial and administrative integrity can not be a practicable proposition until the new regime to be set up under Wang Ching Wei ¹⁶ is able to stand on its own feet.

(b) As it was the United States that took [the initiative?] to terminate the present commercial treaty, Japan looks to the United States to initiate the negotiation of a new treaty. The Japanese nevertheless recognize that it is Japan which created the conditions which made necessary the terminating of the present treaty and Japan is therefore prepared to go as far as possible toward removing those conditions. With that end in view a vigorous effort will be made to settle the outstanding specific issues.

An Interdepartmental Commission to pass on claims has already been set up and is now functioning, stringent measures are being taken to prevent bombings and other depredations on American nationals and property and cases of interference with American commercial activities are to be adjusted.

(c) With reference to the expressed readiness of the American Government to consider proposals looking toward the revision by agreement of the Nine Power Treaty, the Japanese Government cannot agree to revision of the treaty by the conference method for the reason that those countries party to the treaty with unimportant interests in China would have as much voice as the Great Powers and having little at stake and no responsibilities would be obstructive of any agreement. The possibility is, however, under contemplation of there being opened preliminary bilateral negotiations with the United States, France and Great Britain respectively with a view to the holding of a conference at some future time to give effect to any agreement which might result from such negotiations. These negotiations, nevertheless, can not be initiated until such time as conditions involving the tangible interests of the foreign powers are substantially repaired, thus placing Japan in a better position to meet any new and important violation of the Open Door.

(d) There is little likelihood that the Japanese Government will clarify its position until after the Wang central regime has been set up and the relations between that regime and the Japanese Government defined. The Japanese Government does not expect that the American Government will recognize that regime as the Government of China, but it hopes that in view of the extent of the [apparent omission] which is to be controlled by the regime, has brought American interests therein and the substantial number of American governmental agencies in that area, there can be some working arrangement with that regime in connection with the problems which are bound to arise in connection with the customs, currency, et cetera.

2. I am sending today a number of telegrams each bearing in varying degree on the subject of this message. A subsequent telegram presents phases of considerations which arise out of this material.

GREW

¹⁶ Former Deputy Leader of the Kuomintang (Nationalist Party), who deserted Chungking in December 1938.

711.942/331 : Telegram

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

TOKYO, November 28, 1939—2 p. m.
[Received November 28—8:50 a. m.]

634. My 630, November 27, 7 p. m., second paragraph.

1. In the various informal talks which we have had at the Foreign Office and with Japanese close to the Government, who have expressed anxiety with regard to a possible treatyless situation, we have been emphasizing in every possible way that time presses and that before the current treaty of commerce and navigation expires there must be substantial and measurable improvement in Japan's attitude toward American rights and interests before the question of new negotiations can profitably be approached. As indicated in our 630, there exists some realization of Japan's responsibility for having created a condition which led the United States to take action toward terminating the treaty, while the recent marked decrease in the volume of telegrams from China offices reporting bombings of American properties and interference with Americans evidences to some degree the effectiveness of measures which the Japanese state are being taken to improve conditions. However, such progress as has been made along these lines is, as I am pointing out to Japanese, for the most part negative in character and there has been a discouraging lack of initiative toward following a course in China sufficiently mindful of American interests to allow the United States to consider negotiations looking toward a new treaty. Although we have pointed out that the establishment of the proposed Wang Ching-wei regime would further complicate matters by the injection of a new issue, the Government seems to be unwilling to clarify its position with regard to American and other foreign rights in China until that regime has been set up.

2. On the other hand reported statements by Senator Pittman and other prominent persons forecasting the granting by Congress of authority to the President to impose embargoes on Japan are also having a discouraging effect. Threats of this character and the disapproval expressed by Senators Borah¹⁷ and Vandenberg of the imposing of embargoes have respectively excited the extremists and lent them encouragement and those reported utterances are equally contributory toward increasing the confusion which exists with regard to relations with the United States. Such confusion and the resulting pessimism afford fruitful ground for the thriving of inducements which the Soviet Union, supposedly abetted by Germany, is believed to be holding out to Japan.

¹⁷ Ranking Republican member of the Senate Committee on Foreign Relations.

3. The course which appears to be advocated by Senator Pittman and others appears to be to vest the President with power to impose embargoes before any move is made toward negotiating a new treaty. If this is the course which is eventually followed (without regard to any concrete and substantial improvement made by the Japanese Government in the conditions which admittedly brought about the notice of termination), I can only foresee a progressive deterioration in relations. This country is not in a position nor in a mood which will permit it to retreat under threats. There is a great deal to be said for embargoes as a punitive measure but if they are imposed there must be adequate preparation for their logical and almost inevitable consequences. On the other hand if they are to be imposed as a corrective measure the conditions under which they are laid down should be such as to enhance the probabilities of effectiveness.

4. Assuming that it would be our objective to bring about a correction of existing conditions before considering penalties, I respectfully submit for your consideration the need for determining (if that has not been done) the minimum conditions to be fulfilled by Japan as a condition precedent to the opening of negotiations for the regulating of American-Japanese commercial relations. If those conditions are fulfilled, I would recommend that some trade arrangement be completed as a manifestation of American desire to bring about an adjustment of relations, and that ratification or other implementation of such arrangement be withheld pending further evidence of both willingness and capacity on the part of Japan to safeguard American rights and interests in China. I believe that the psychological effect of such a gesture, even if it were found possible in the meantime to start negotiations without necessarily bringing them to an early conclusion, would exert a powerful and salutary influence in Japan. The question of holding in abeyance implementation of the Pittman resolution, should that proposed resolution pass the Senate, would obviously then depend upon developments.

5. As the Department is aware, I am not prone to paint problems in sensational colors. Nevertheless, the prevalent pessimism with regard to the possibility of meeting American conditions, the diminishing prospects of an early conclusion to the China conflict, and the prospects of diverting to China the military resources which would be released by even a temporary arrangement with Russia are factors which should be dealt with clearly and resolutely if the situation is to be kept from deteriorating beyond repair.

6. To sum up I feel very strongly that if and as there emerges concrete evidence of a desire and intention on the part of the Japanese Government to improve Japanese-American relations by progressive steps having considered at least some of our outstanding controversies in China, it will be the recommended part of wisdom to encourage

such a trend by offering evidence of admitted desire on our part for a concrete improvement of relations, thereby removing from the extremists the argument now prominently advanced that friendship with the United States is impossible. Our position is obviously that the present parlous state of Japanese-American relations is due to Japanese action and that the onus lies squarely upon Japan. My point however is that favorable results can more readily be achieved by such steps on our part as will tend to facilitate Japan's efforts to improve those relations provided that Japan indicates the will and the intention to proceed in that direction.

7. The fear of isolation furnishes a powerful argument to those in Japan who are now advocating a *rapprochement* with Soviet Russia.

GREW

711.94/1396

*The Ambassador in Japan (Grew) to the Secretary of State*¹⁸

No. 4359

TOKYO, December 1, 1939.

[Received January 10, 1940.]

SIR: A Japanese recently remarked that what Japan most needs at present is a statesman of the calibre of Prince Ito. No such figure, alas, has emerged nor is likely to emerge, and through lack of strong statesmanship Japan is bound to suffer. The Government is weak and is "floundering". Yet to control and unify the heterogeneous forces in Japan today would require a statesman of almost superhuman ability.

The crux of Japanese-American relations lies in the fact that while the Government is prone to give us soothing assurances, no individual or group in Japan is strong enough to bring about the full implementation of those assurances. There is little doubt that the great majority of Japanese, both in the Government and out of it, who know anything about foreign relationships, want good relations with the United States, but they have yet to grasp securely the power of directing policy and taking measures in the effective way which alone can bring about good relations. International relations cannot thrive on mere pious expressions of intention. I have told them this, and am steadily continuing so to tell them, but it does little good. The outlook for the future relations between the United States and Japan does not now appear to be bright.

It is this outlook that now requires our most careful study and concern.

¹⁸ Sent also under date of December 21 to President Roosevelt as "excerpt from my November diary" (Personal Papers of Franklin D. Roosevelt at Hyde Park, N. Y.).

TWO MAIN DESIDERATA

Before proceeding further with these observations, I wish to make clear the following point: my functions as American Ambassador to Japan, as I conceive them, and therefore the functions of the Embassy, involve two fundamental duties: first, the maximum protection and promotion of American interests in this field; second, the maintenance and furtherance of good relations between the United States and Japan. Even if and when these two duties are found to be in conflict, we are not relieved of either responsibility. Our efforts must be to endeavor to align, so far as may be possible, these two main desiderata. Our analyses and recommendations must keep both of these primary purposes constantly in view. It then of course devolves upon the Administration rather than upon the Embassy, in the light of larger policy, to determine the course to be followed by our Government.

AN OBJECTIVE APPROACH

Furthermore, in approaching this problem we must be guided by pure objectivity from which all elements of bias or prejudice, predilection or antipathy, sentiment or emotion must be carefully excluded.

It is, then, in this spirit that I approach the problem. Whatever the thought present in the minds of many Americans who, like myself, regard the future of America in the Far East with many misgivings, there can be no place in my philosophy for the thesis *delenda est Japonia*.

PRINCIPLE VERSUS REALISM

In shaping the future course of the United States in the Far East our Government, I believe, should have in mind two distinct considerations. First and foremost, the fundamental principles of our international policy which are based upon our own respect for legal commitments and our expectations of a similar respect on the part of other countries. Second, a sense of realism which takes cognizance of the existence of objective facts. When principle clashes with realism and when no way can be found to align them, then the question inevitably presents itself: to what extent, if at all, can we or should we seek adjustment by compromise? Should we ever compromise between principle and realism? We have now attained the desired maximum of our own national entity as well as adequate national strength. International morality, including respect for legal commitments and permanent abandonment of force as an instrument of national policy, has become for us at once a watchword and a religion.

The United States is solemnly (to use that somewhat overworked Wilsonian term) committed to uphold the principles of the Nine

Power Treaty, primarily to uphold the territorial and administrative integrity of China and the Open Door. Therein lies the point of principle.

On the other side of the picture, nothing in international affairs can be more mathematically certain (if anything in international affairs is ever certain) than that Japan is not going to respect the territorial and administrative integrity of China, now or in future, has not the slightest intention of doing so and could be brought to do so only by complete defeat. Observance in practice of the Open Door is and will continue to be a matter of degree governed by expediency, not by principle. Herein lies the point of realism.

CAN JAPAN BE DEFEATED?

Given the situation now existing in Europe, there does not now appear on the horizon the possibility of such a defeat being inflicted by any nation or by any set of circumstances, military, social, economic or financial. There may be temporary setbacks or a stalemate in the military field or even, over a course of time, under increasing Chinese pressure, what the military experts call "strategic withdrawal to previously prepared positions", in other words, withdrawal into North China the control of which was the primary purpose of the so-called "China Incident"; there may be financial and economic difficulties and depression; a pulling in of the belt; perhaps serious hardships; there may be increasing social unrest at home; but of an overwhelming debacle there is little present outlook.

We have already drawn the Department's attention to the beginning of an inflationary movement in this country, and in a despatch now under preparation²⁹ there will be discussed the further development of this movement as reflected in slower absorption of government bonds, a large increase in the paper currency, and mounting commodity prices, along with far-reaching measures designed to control prices. Attempts to control the supply and demand of rice are causing wide agrarian unrest. It is our opinion, however, that even if worse came to worst there is realization that Japan has irrevocably committed herself to the continental adventure and is determined to see it through. The majority opinion in the Embassy, which I myself share, does not believe that an American embargo, even if it covered all American exportation and importation to and from Japan, would bring about such a debacle as would cause the Japanese to relinquish their program in China.

Statisticians have proved to their own satisfaction, and will continue so to prove, that Japan can be defeated by economic pressure from without. But the statisticians generally fail to include psychological factors in their estimates. Japan is a nation of hardy warriors.

²⁹ Not printed.

still inculcated with the samurai do-or-die spirit which has by tradition and inheritance become ingrained in the race. The Japanese throughout their history have faced periodic cataclysms brought about by nature and by man: earthquakes, hurricanes, floods, epidemics, the blighting of crops, and almost constant wars within and without the country. By long experience they are inured to hardships and they are inured to regimentation. Every former difficulty has been overcome. Estimates based on statistics alone may well mislead.

"THE NEW ORDER IN EAST ASIA"

During the months since my return from the United States I have carefully and thoroughly studied opinion in Japan, including opinion in the Government, the army, the influential elements in civil life, the business world and the masses, and on one issue that opinion can definitely be said to be unanimous: the so-called "new order in East Asia" has come to stay. That term is open to wide interpretation, but the minimum conception of the term envisages permanent Japanese control of Manchuria, Inner Mongolia, and North China. In the army and among certain elements of the Government and the public the conception is very much broader; those elements would exert Japanese control throughout all of China, or as much of China as can now or in future be grasped and held, including the treaty ports and the international settlements and concessions. Control in Manchuria is already crystallized through the puppet state of "Manchukuo"; control in Inner Mongolia is a problem for the future. It is hoped and expected here that control of North and Central China will be exercised by setting up the two regimes under Wang Kehmin²⁰ and Wang Ching-wei. These plans of course envisage long-term and probably permanent Japanese garrisons to compel subserviency to Japanese interests. It would be difficult to find any Japanese who visualizes "the new order in East Asia" as less far-reaching than the foregoing minimum conception.

The pill will be most carefully sugar-coated, and the Japanese are past-masters at sugar-coating their desiderata and intentions. They say, and many of them actually believe, that all this is being done to bring permanent peace to China in the interests of the incompetent Chinese themselves; theirs is a "Holy War". They also say, and many of them believe, that it is being done to prevent the spread of communism into Japan proper, thereby casting aspersions, it would seem, on the generally accepted ability of the Japanese police to control and eradicate "dangerous thoughts" within the country. They will tell you, and they do tell you, that once the Wang Ching-wei regime is firmly established and peace once more reigns among the bellicose Chinese who are themselves incapable of maintaining peace,

²⁰ Head of the "Provisional Government" at Peiping.

why, then, American interests will be fully respected, the Open Door and equal opportunity will flourish in the land and that everything will be serene. Only a little patience is needed until all this lovely dream gets stabilized as it is quite certain to do. We need not be misled by these assertions.

JAPAN'S FUNDAMENTAL DESIDERATA

We ourselves can epitomize Japan's fundamental desiderata perhaps better than many Japanese can. They desire:

- (1) Strategic protection against a future attack by Soviet Russia, particularly an attack on Manchuria.
- (2) Economic security through control of the raw materials in China which Japan herself does not adequately possess. Japan is economically vulnerable.
- (3) Eradication of both anti-Japanese and communistic activities and propaganda in China, especially in North China.

The Japanese extremists desire much more, but the foregoing desiderata represent the fundamental and minimum purposes of Japanese aggression beginning with the Manchurian campaign in 1931.

CAN THE JAPANESE MILITARY BE DEPRIVED OF CONTROL?

To await the hoped-for discrediting in Japan of the Japanese army and the Japanese military system is to await the millenium. The Japanese army is no protuberance like the tail of a dog which might be cut off to prevent the tail from wagging the dog: it is inextricably bound up with the fabric of the entire nation; its ramifications are far too deep for any effective amputation, or any effective withering through discredit. Certainly there are plenty of Japanese who dislike the army's methods; there is plenty of restiveness at the wholesale impressment of the able-bodied young men to fight in China, of the death and crippling of many, and of the restrictions and handicaps in every-day life entailed by the expenses of the campaign. But that the army can be discredited in the eyes of the people to a degree where its power and prestige will become so effectively undermined as to deprive the army of its control or at least of its preponderant influence in shaping national policy is an hypothesis which I believe no one intimately conversant with Japan and the Japanese would for a moment entertain. It is reluctantly felt that the entertaining of such an hypothesis is unfortunately but unquestionably a case of the wish being father to the thought. Should any *coup d'état* occur in Japan through social upheaval, there is little doubt that it would immediately lead to a ruthless military dictatorship.

I have spoken of the heterogeneous forces in Japan, forces that even in the army itself are always present, pulling in varying directions; there are bickerings aplenty even among the different military com-

mands in China itself; but on the point of determination with regard to "the new order in East Asia" one can say with conviction that the Japanese are unanimous. However sugar-coated the pill may be, that term means China for the Japanese; it means that whatever other foreign interests are to be tolerated (*sic*) in China, those interests are to be subject to Japanese control; it means that only the remnants of trade and business and commercial opportunity are to be dispensed after Japanese interests have acquired and enjoyed the lion's share; and it means, above all, a continued flagrant breach of the Nine Power Treaty through violation of the provisions and principles of that international commitment.

So here we find ourselves squarely faced with a problem which, from all present indications, is to be permanently with us: the problem of principle versus realism. What are we going to do about it?

NO COMPROMISE WITH PRINCIPLE

First of all, I do not think that our Government can, should or will compromise with principle. Regardless of our past history, it is unthinkable to me, and presumably unthinkable to the Administration and to the great majority of the American people, that in this day and age we should do so. We need not do so. Unless or until the provisions of the Nine Power Treaty are modified by "orderly processes" we should and must respect and honor our own commitments under that agreement.

TWO GENERAL COURSES OPEN TO THE UNITED STATES

Granting a priori that this is our determined position, it appears that two general courses, neither of which involves compromise with principle, are open, each of them susceptible of modification as developments might require.

One course envisages complete intransigence. Unless and until Japan reorientates her policy and actions, both as regards her commitments under the Nine Power Treaty (until modified by orderly processes) and her respect of American rights and interests in China, we would refuse to negotiate a new treaty of commerce and navigation and would, if public demand in the United States calls for it, impose an embargo next winter.

This course would set Japanese-American relations moving on a downward slope to a point from which it would be difficult to bring them back to normal for a long time to come; a treatyless situation, with its attending handicaps to Japanese trade, would start the movement; the imposition of an embargo would greatly accelerate it.

The other course, after endeavoring to consider the situation and outlook from all angles, I believe is in our own interests now and, so far as we can foresee the future, the wiser one to follow. We would

say to Japan: "The United States concedes no right and recognizes no compromise with respect to the provisions and principles of the Nine Power Treaty. We, however, desire so far as feasible to maintain good relations with Japan. We await progressive implementation of your assurances that American rights and interests in China will be respected, not only in negative ways, such as cessation of the bombings of American property, indignities to American citizens and the more flagrant interferences with American business and trade, but also in positive ways through the presentation progressively of concrete evidence that American commercial, cultural and other rights and interests are not to be crowded out of China by Japanese measures as hitherto has appeared patently to be intentional. As soon as some definite start is made in presenting concrete evidence to the foregoing effect, we, for our part, with a view to facilitating the efforts of the Government in Tokyo to further such a program, will enter into negotiations for a new treaty of commerce and navigation and concurrently for a *modus vivendi* of limited duration to tide over a treatyless situation, it being clearly understood that the ratification of such a treaty will depend upon future developments, namely, the progressive implementation of such a program. In the meantime, also depending upon developments, we will endeavor to hold in abeyance the question of imposing an embargo against Japan. Such an effort will obviously depend upon American public opinion and public demand which, in turn, will depend in large measure upon the character of the concrete evidence presented by the Japanese Government that the desired program is being faithfully carried out. As for the Nine Power Treaty, we shall meanwhile confidently await a favorable moment for a reconsideration of the provisions of that treaty through orderly processes."

HOW SHALL WE MEET THE COMING CRISIS?

Within the next two months we are coming to a crisis in Japanese-American relations, to a possible parting of the ways. One way points straight down hill. A treatyless situation plus an embargo would exasperate the Japanese to a point where anything could happen, even serious incidents which could inflame the American people beyond endurance and which might call for war. The Japanese are so constituted and are just now in such a mood and temper that sanctions, far from intimidating, would almost certainly bring retaliation which, in turn, would lead to counterretaliation. Japan would not stop to weigh ultimate consequences. It would be all very well to say that Japan had brought our action on her own head, that the United States can get along without Japanese friendship and that the dignity and power of the United States cannot tolerate compromise, but such an attitude would be lacking in any constructive element. I think that

our dignity and our power in themselves counsel moderation, forbearance and the use of every reasonable means of conciliation without the sacrifice of principle.

This course involves no sacrifice, no compromise with principle, and no detraction from the dignity of the United States. It simply means that we desire and intend to facilitate, not to complicate, the task of the Japanese Government in its efforts to improve relations by curbing the military authorities in China—provided that concrete evidence of such efforts and progressively favorable results from such efforts become patent—instead of rendering that task and those efforts more difficult by complete intransigence. My own present efforts are concentrated on persuading the Japanese Government to bring such evidence clearly before the American Government and people.

It is axiomatic to say that good relations between the United States and Japan are in our own interests. No purely altruistic motives are involved. In our own interests, particularly our commercial and cultural interests, we should approach this problem from a realistic and constructive standpoint. Not only on Japan's future action but on our own future action too will depend the question whether our relations with Japan are susceptible of improvement or whether they are to go straight down hill. There is no use whatever in quibbling about this, no use in refusing to face facts. The bombings of our property, the personal indignities and interferences, and some of the more flagrant violations of our commercial rights can be stemmed, but unless we are prepared to fight for it, the Open Door, as we conceive it, is not going to be kept open. We have the choice of losing everything or of saving something from the wreckage, while opening the way to a potential building up of our relations with Japan. Whatever course we elect to take should be adopted only after reaching a perfectly clear perception of where the alternative courses will lead, and then of most carefully weighing the pros and cons between them.

In brief, to sum up, I believe that we should now offer the Japanese a *modus vivendi*, in effect if not in name, that we should commence negotiations for a new treaty, withholding ratification of such a treaty until favorable developments appear to justify such ratification, and that even if Senator Pittman's proposed resolution passes the Senate, the Administration should withhold the laying down of an embargo against Japan unless and until it becomes evident that the efforts of the Japanese Government effectively to ameliorate the present position of American interests in China are futile and hopeless. Such an attitude on our part can conceivably lead to a material improvement of the situation. The thinking Japanese know that they are going to need American help in the reconstruction of China, even if such reconstruction is intended to redound eventually to the paramount interests of Japan. The Government does not wish to sacrifice this and other

assets which depend upon good relations with the United States. In the long run we ourselves also shall have much to gain by avoiding a break with Japan, much to lose if a break occurs. Intransigence on our part will accelerate the trend toward such a break. A constructive and transigent attitude on our part can turn such a trend the other way. On January 26, 1940, there is likely to arise the most critical period in the entire history of American-Japanese relations. What are we going to do about it?

In the welter of press comment on this general subject a brief article in the San Francisco *Argonaut* of November 24 has caught my eye and is copied as an enclosure herein²¹ as pertinent to this discussion. The article sets forth the unwisdom of disrupting our vast trade with Japan at a time when American business is beginning to rise from a deep depression. This article seems to me worthy of thoughtful consideration.

IS AN ISOLATED JAPAN DESIRABLE?

The argument is often advanced that Japan should and can be brought to terms through isolation. The corollary is furthermore advanced that unless isolated and reduced by economic and financial attrition to the rank of a second or third rate power, it is only a question of time before Japan continues her continental and overseas expansion, involving the Philippines, the Netherlands East Indies and other western possessions in the Far East; that the time to restrain her expansion is now.

With regard to this thesis, I submit the following considerations. The resort to methods calculated to bring about the isolation of delinquent nations must presuppose in the final analysis the use of force. Sanctions commenced but not carried through bring in their wake a loss of prestige and influence to the nation declaring them. Sanctions carried through to the end may lead to war. This statement seems to me to be axiomatic and hardly open to controversy. In my view the use of force, except in defense of a nation's sovereignty, can only constitute an admission of a lack first, of good-will, and, second, of resourceful, imaginative, constructive statesmanship. To those who hold, with regard to the specific situation with which we are dealing, that it is not enough for good-will and statesmanship to exist only on one side, my rejoinder would be that these factors exist also in Japan, albeit in latent form until now, and that one of the functions of diplomacy is to bring those factors into full vigor. Shidehara²² diplomacy has existed; it can exist again.

²¹ Not reprinted.

²² Baron Kijuro Shidehara, Japanese Minister for Foreign Affairs who resigned December 10, 1931.

There will be time enough to speak of sanctions when the resources of diplomacy will have been exhausted. At the moment of this writing, those resources have not yet been exhausted. By nature not a defeatist, I believe that those resources may yet win the day.

Respectfully yours,

JOSEPH C. GREW

711.94/1380 : Telegram

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

TOKYO, December 11, 1939—1 p. m.

[Received December 11—8:30 a. m.]

673. Department's 389, December 8, 5 p. m.;²³ 390, December 8, 6 p. m.;²⁴ and 392, December 8, 8 p. m.²⁵

1. I am of the opinion that I should without much delay seek another appointment with the Foreign Minister and communicate to him the substance of the foregoing telegrams as my Government's studied reaction to the Minister's comments to me in our conversation of December 4,²⁶ presenting a note in regard to claims (Department's 389) and discussing orally the substance of Department's 389 and of paragraph numbered 4 in Department's 392. Such representations as under specific instructions from Washington would tend to reinforce what I have said to Admiral Nomura as on my own initiative. While the Japanese Government has already and frequently been made aware of our attitude and desiderata with regard to Japanese interference with American interests in China and the steps which the American Government considers essential to an improvement in Japanese-American relations, I believe the more is to be gained by continually impressing these facts upon the consciousness of the Japanese authorities than by leaving those authorities in the belief that their current efforts towards conciliation have done more than "touched the fringe of the problem".

2. If the Department approves of the foregoing procedure the important question of publicity will arise. The Foreign Office only will determine the nature and extent of the comments to be released or quietly fed to the Japanese press with regard to my representations and it is fairly certain, judging from past experience, that such comments will be neither complete nor accurate. This element of publicity I cannot control. I can, however, give to the American newspaper correspondents who keep in touch with me, or to the correspondents of the Associated Press and United Press exclusively, the

²³ Vol. IV, p. 418.

²⁴ *Foreign Relations*, Japan, 1931-1941, vol. I, p. 671.

²⁵ *Ibid.*, vol. II, p. 46.

²⁶ See telegram No. 656, December 4, 10 p. m., from the Ambassador in Japan, *ibid.*, p. 40.

correct story of my representations. This would at least insure accurate reporting in the United States instead of the imaginative fiction which is likely to be cabled to the United States by those press agencies in the absence of factual information from me. I have in mind especially the inaccurate United Press report of my conversation with the Foreign Minister on November 4.²⁷ I gather that those agencies expect long reports from their correspondents whenever one of my interviews with the Foreign Minister takes place. The Department is, of course, in a better position than am I to determine the nature of the publicity now desirable in the United States.

3. I should welcome specific guidance with regard to the procedure to be followed under both paragraphs 1 and 2 above.

GREW

711.94/1387: Telegram

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

PEIPING, December 13, 1939—4 p. m.

[Received 8:21 p. m.]

633. An American citizen (Mr. Laughlin, known to Mr. Atcheson²⁸) engaged in teaching English to the local Japanese *gendarmarie* called at the Embassy yesterday and stated that the Japanese military here are very much interested in the approaching visit to Peiping of Ambassador-at-Large Kato. The informant said that the military have "permitted" Kato to come here in order primarily to see me and take up with me the following proposal which he stated had the approval of the Japanese military here: to endeavor to obtain an extension of the 1911 Treaty or to negotiate a new one; the informant said that, if an extension or a new treaty could be arranged, the military idea was that Japan would be willing to agree to the following: (a) to "modify their attitude towards Americans in China" to the extent that 450 of the 600 cases pending against Japan would be recognized, (b) to pay compensation in all cases when justified, and in other cases "apologies will be rendered and assurances will be given", and (c) to offer special treatment to Americans and American interests in China.

I suspect that the informant was sent to the Embassy by the local Japanese military and the information given by him is accordingly transmitted for the information of the Department.

Repeated to Chungking. By air mail to Tokyo.

JOHNSON

²⁷ See the Ambassador's memorandum of November 4, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 31.

²⁸ George Atcheson, Jr., of the Division of Far Eastern Affairs.

711.942/374: Telegram

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

PEIPING, December 14, 1939—3 p. m.
 [Received December 15—7:25 a. m.]

635. With reference Peiping's despatch No. 2337, November 2 concerning apprehension of local Americans over possible drastic American action after expiration Japanese commercial treaty on January 26, in conversation with a number of American citizens here in Peiping I find that apprehension referred to in the Embassy's despatch appears to be fairly widespread. Apprehension seems to me to be due to following factors: (a) Reported statements by Japanese that present joint note expresses [policy of Japan?] definitely to discriminate in favor of American citizens would be replaced by anti-American feeling unless American attitude changes after January 26. (b) Tendency of Americans to confuse treaty issue with much publicized possibility of Congress passing legislation authorizing embargo of certain types of goods for Japan. (c) Apparent general belief that American Government contemplates some drastic action as a follow-up of Ambassador Grew's speech²⁹ and notice of termination of Japanese-American Treaty of Commerce. In conversation I endeavored to point out to Americans that issue regarding treaty and question of embargo are two separate and distinct questions, that termination of treaty does not imply further action by the United States Government as it will leave commercial relations upon a basis of domestic regulation in the two countries and in the case of the United States upon laws which have been upon statute books for a number of years and that further initiative rests not with American Government but with Japanese Government which presumably will wish to improve rather than worsen its commercial relations with the United States.

I have stated that personally I do not anticipate any worsening of situation regarding Americans in China except possibly as the result of actions by irresponsible Japanese military in the field; that I do not observe any reason now for issuing warnings to American citizens as to their conduct or as to possible evacuation from places in the interior. Statements of hostile attitude by local Japanese spokesmen or repeated from published items in Japanese press in Japan continue to be reported here, and to form subject to [of?] circulated gossip and speculation; personally I feel that these statements are intended more as bluff or as wishful thinking rather than as indicating any definitely conceived plans by Japanese authorities. Domei constantly carries reports intended to convey the idea that Japanese Minister resident Kato is pursuing me for purpose of conference and settlement of outstanding questions.

²⁹ Address of October 19, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 19.

One cannot escape the feeling that some of this may be inspired by local Japanese military who appear to be anxiously endeavoring to appease American official attitude by attempts at local settlement of questions relating to American citizens. In short courtesy visit paid by Kato to me in Shanghai, no suggestion was made by him of any desire to substitute [*discuss?*] outstanding questions and I have no knowledge of any desire on his part to confer with me in regard to any question. No Japanese has thus far sought me out for purposes of conversation or otherwise.

I expect to spend the 15th in Tientsin, returning to Peiping December 16th. I expect to see and talk with Americans in Tientsin in the presence of Consul General Caldwell.

Repeated to Chungking, Shanghai, code text by air mail to Tokyo.

JOHNSON

711.94/1380: Telegram

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

WASHINGTON, December 14, 1939—6 p. m.

399. Embassy's 673, December 11, 1 p. m. The Department has carefully weighed the recommendations contained in your telegram. We concur fully in your view in regard to the desirability of keeping before the Japanese authorities the attitude and position of this Government and our opinion that the actual results of the efforts of the Japanese Government up to the present time involve only limited categories of outstanding problems.

However, we are inclined to the view that there is no call for this Government to take and that it would be tactically disadvantageous for it to take, at this time, an initiative toward presenting to the Japanese Government our views on these general questions. The comments contained in the Department's 392, December 8, 8 p. m.,³⁰ were intended to be suggestive in character and of possible assistance to you in informal conversations with Foreign Office officials. We therefore offer for your consideration the suggestion that the comments contained in our 392, December 8, 8 p. m., be used as under instruction of this Government when occasion arises in the course of conversations with Foreign Office officials other than the Foreign Minister or in the course of any conversation with the Foreign Minister which has not been arranged at your instance and for this specific purpose.

Our 389, December 8, 5 p. m.,³¹ contemplated written acknowledgment of the receipt of recent Foreign Office replies relating to specific claims. In order to guard against any impression on the part of

³⁰ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 46.

³¹ Vol. IV, p. 418.

the Japanese that such replies are regarded by us as satisfactory or as indicative of a satisfactory attitude on their part toward the question of claims, we consider that acknowledgment along the lines suggested would be advisable. In that connection the observations contained in our 390, December 8, 6 p. m.,³² might be helpful if conveyed informally upon appropriate occasions.

HULL

711.94/1387 : Telegram

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

WASHINGTON, December 14, 1939—7 p. m.

287. Your 633, December 13, 4 p. m. If Kato comes to you with proposals such as are outlined or similar thereto, you should listen attentively and should say that the subject matter is one for discussion between your Government and the Japanese Government but that you will of course report to your Government what Kato has said. You should take occasion, however, to make expressly and clearly a comment that your Government does not seek "special treatment" for American nationals and interests in China, special treatment and discriminatory treatment being methods and procedures to which this country expressly, consistently and constantly objects.

HULL

711.942/409

The Secretary of State to the Secretary of Commerce (Hopkins)

WASHINGTON, December 15, 1939.

MY DEAR MR. SECRETARY: Further reference is made to Assistant Secretary Johnson's letter of November 9, 1939, enclosing a copy of a letter of October 25, 1939,³³ addressed to the Collector of Customs at Seattle by Mr. H. S. Hoskins, Vice President of Geo. S. Bush & Co., Inc., in which request is made for information in regard to questions as follows:

(1) "After the abrogation of the present treaty (of commerce and navigation between the United States and Japan), and provided it is not renewed, what rate of tonnage tax would be assessed upon entry of a Japanese vessel at a United States customhouse?"

(2) "Would there be any additional penalties imposed?"

(3) "According to our understanding, as long as the reciprocal agreement is in effect, our Government accepts the inspection certificates of the Japanese Government. If the treaty is abrogated, what effect would the abrogation have on the inspection requirements of Japanese freight vessels and Japanese passenger vessels? In other words, would the United States Steamboat Inspection service be re-

³² *Foreign Relations, Japan, 1931-1941, vol. I, p. 671.*

³³ Neither printed.

quired to inspect such vessels and require their compliance with the various United States laws and regulations as to manning of vessels, equipment to be carried, et cetera?"

In Assistant Secretary Johnson's letter it is asked that consideration be given to the questions at an early date in order that prompt instructions may be forwarded to your Department's representatives in the field, and in addition request is made that you be advised upon the economic relations which will exist between the United States and Japan upon the termination of the present treaty of commerce and navigation between the two countries.

Questions Nos. (1) and (2)

Section 146 of Title 46 of the United States Code provides that a discriminating duty of ten per centum ad valorem, in addition to all other duties imposed by law, shall be assessed upon goods imported in foreign vessels which are not entitled by treaty or act of Congress to national treatment in the ports of the United States. (An almost identical provision—based on the same Congressional enactments—is found in Section 128 of Title 19 of the Code. This section adds nothing, so far as this question is concerned, to Section 146 of Title 46 and need not be separately considered.) Section 121 of Title 46 of the United States Code provides for discriminatory tonnage duties on foreign vessels unless the President of the United States shall be satisfied that discriminating or countervailing duties (including all duties not imposed on national shipping) of foreign nations, so far as they operate to the disadvantage of the United States, have been abolished. Section 141 of Title 46 of the United States Code provides, however, that "upon satisfactory proof being given to the President, by the government of any foreign nation" that no discriminating duties of tonnage or imposts are imposed or levied in the ports of that nation upon the vessels of the United States, or upon the produce, manufactures or merchandise imported in the same, the President may issue a proclamation declaring that the discriminating duties of tonnage and imposts are suspended in so far as respects the vessels of that nation and that they will remain suspended so long as the reciprocal exemption from discriminating duties shall continue.

In a proclamation of September 4, 1872 (17 Stat. 956), a proclamation which appears not to have been revoked by subsequent Presidential proclamation, President Grant proclaimed the vessels of Japan and their cargoes to be exempt from the payment of discriminating duties of tonnage and imposts in the United States so long as vessels of the United States and their cargoes should be exempt from payment of discriminating duties of tonnage and imposts in Japan.

It is the opinion of this Department that in view of the above-mentioned Presidential proclamation of September 4, 1872, and as

long as that proclamation remains in effect, termination of the Treaty of Commerce and Navigation of 1911 between the United States and Japan does not call for imposition by this Government of discriminating duties of tonnage or imposts on Japanese vessels or cargoes in ports of the United States.

Question No. (3)

Acceptance of inspection certificates of vessels is governed by the provisions of the International Convention for the Safety of Life at Sea, 1929,^{33a} among countries which are parties to that convention. The United States and Japan are both parties to that convention and are therefore bound by its provisions. Termination of the commercial treaty between the United States and Japan would therefore not affect the situation.

With reference to your inquiry in regard to the economic relations that will exist between the United States and Japan upon the termination of the treaty of 1911, it is the opinion of this Department that the expiration of the treaty between the United States and Japan will not of itself produce any changes in the general customs duties or treatment applicable to imports of Japanese goods into the United States. In the absence of a treaty, commercial relations between the two countries are governed in each country by its municipal law or practice, subject of course to any applicable provisions of international law.

In view of this Department's interest in the matter under discussion and of the fact that this Department is receiving numerous inquiries in regard to questions arising from termination of the treaty of 1911 between the United States and Japan, this Department would appreciate it if the Department of Commerce would, before making reply to the inquiries which the Department of Commerce has received on the subjects discussed in this letter or otherwise commenting publicly on such subjects, confer informally with this Department in regard to the form and content of the replies or any public statement which the Department of Commerce may deem it advisable to make.

Sincerely yours,

CORDELL HULL

711.942/381 : Telegram

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

TOKYO, December 18, 1939—6 p. m.

[Received December 18—8:30 a. m.]

686. 1. The Minister for Foreign Affairs asked me to call on him today and informed me definitely of the intention of the Japanese

^{33a} Signed at London, May 31, 1929, Department of State Treaty Series No. 910, or 50 Stat. 1121.

Government to open the Yangtze River to general navigation as far as Nanking "in about 2 months". The Minister added that for the time being certain restrictions would probably have to be imposed on such navigation owing to the military operations in China.

2. The Minister definitely proposed a *modus vivendi* to carry on Japanese-American commercial relations after the expiration of the present Treaty of Commerce and Navigation and expressed the hope that as little time is now left before the expiration of the treaty negotiations for a new treaty could commence shortly, if possible before Christmas. I replied that I had no instructions with regard to this matter and asked if the Minister desired me to communicate this to my Government as a definite proposal from him. He replied in the affirmative.

3. Further details will be telegraphed to the Department in due course.

GREW

711.942/381 : Telegram

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

WASHINGTON, December 18, 1939—5 p. m.

403. Your 686, December 18, 6 p. m. The Department is sending you in a separate telegram (No. 402 of December 18, 2 p. m.³⁴) which was prepared prior to the receipt of your telegram under reference a statement of the position of this Government in regard to the subject of entering upon negotiation of a commercial treaty or agreement to replace the 1911 Treaty of Commerce and Navigation. Please study the statement in the light of the proposal which has been made to you by the Minister for Foreign Affairs and give the Department the benefit of any comments which you may feel are called for. The Department is studying your telegram and will expect after receiving the further details mentioned in your numbered paragraph 3 to give you further instructions.

HULL

711.942/386 : Telegram

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

TOKYO, December 18, 1939—11 p. m.

[Received December 18—7:15 p. m.]

688. My 686, December 18, 6 p. m. A separate telegram No. 687, December 18, 10 p. m.³⁵ conveys translation of the *pro memoria* upon which the remarks of the Foreign Minister in our conversation today were based. Apart from the Minister's statement, the following points were touched upon.

³⁴ *Foreign Relations*, Japan, 1931-1941, vol. II, p. 190.

³⁵ *Ibid.*, p. 48.

(1) When the Minister divided our problem into "negative" and "positive" categories, I pointed out that there exist certain differences of opinion between our two countries involving matters of fundamental principle which might not fall within either of the two foregoing categories, as the Minister appealed [*appeared?*] to conceive. These basic considerations, I said, had been clearly presented in the documents left with the Minister in our meeting on November 4.

(2) I have no recollection of having spoken to the Minister on November 4 of the possibility of bringing about "a speedy" reversal of public opinion in the United States.

(3) After the Minister had completed his statement and I had expressed my own appreciation of the efforts which the Japanese Government is making towards improving the relations between our two countries, I conveyed to him orally, informally and fully as under instruction of my Government the Department's reactions to the Minister's statements made to me November 4 as presented in paragraph 4 of Department's 392, December 8, 8 p. m.³⁶ and with regard to claims in Department's 390, December 8, 6 p. m.³⁷

This included the Department's observation that it feels that thus far the efforts the Japanese authorities have little more than "touched the fringe of the problem".

(4) With regard to monopolies and the two "companies", the Minister said that in order to overcome difficulties in questions of national defense it had become necessary to set up "economic blocs" between Japan, China and Manchukuo. There is, however, no intention to exclude other countries and Japan is "quite ready to welcome foreign capital". I asked: "On a non-discriminatory basis?" The Minister replied merely that foreign participation in those enterprises would be welcome.

(5) With regard to questions of currency the Minister observed that they "have to finance the army" but that these discriminations "will be modified when the fighting stops and a Chinese Government is set up." All of these "inconveniences", he said, will gradually be modified.

(6) At the end of the conversation the Minister said "off the record" that in the interest of both our countries we must prevent the European war from spreading to the Far East and that Japanese-American conciliation will be a powerful factor in avoiding such a contingency.

GREW

³⁶ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 46.

³⁷ *Ibid.*, vol. I, p. 671.

711.942/387: Telegram

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

Tokyo, December 18, 1939—midnight.

[Received December 18—8:45 p. m.]

689. Please permit me very respectfully to express to you the following views with reference to my several telegrams to be despatched this evening which present a problem of critical importance in American-Japanese relations. Obviously I am looking at the problem from the angle of this Embassy on the basis of our own observations and analyses and must defer to the wider and fuller outlook of the Government in Washington.

1. The simple fact is that we are here dealing not with a unified Japan but with a Japanese Government which is endeavoring courageously, even with only gradual success, to fight against a recalcitrant Japanese Army, a battle which happens to be our own battle. The Government needs support in that fight. If we now rebuff the Government we shall not be serving to discredit the Japanese Army but rather to furnish the army with powerful arguments to be used in its own support.

2. Obviously we cannot count upon implementation of today's assurance that "it is the intention to open the Yangtze in about 2 months" until that step has actually been taken. Nevertheless, if we now meet the initiative of the Japanese Government by an uncompromising refusal to consider either a *modus vivendi* or an approach to negotiations for a new treaty until the opening of the Yangtze and perhaps other steps have been actually accomplished, we shall be administering a rebuff which may well bring about the fall of the present Cabinet.

3. On the other hand, if we meet the Japanese Government's initiative by offering a *modus vivendi* and an approach to negotiations for a new treaty with such reasonable conditions as may commend themselves to our Government we shall be furnishing the Japanese Government with equally powerful support in the eyes of the Japanese public. Ratification of an eventual treaty could be made dependent upon implementation of assurances.

4. Whatever reply I am to be instructed to return to the Foreign Minister in answer to his initiative I earnestly recommend that it not close the door and that it be of such a character as to encourage the Minister in continuing his patent efforts to meet our position. Such a reply will be far more likely to bring in its train further Japanese steps towards ameliorating the situation of our interests in China than would result from a rebuff. I am convinced that at this juncture we are in a position either to direct American-Japanese relations into a progressively healthy channel or to accelerate their movement straight down hill.

GREW

711.942/381 : Telegram

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

WASHINGTON, December 19, 1939—6 p. m.

404. Supplementing and amplifying Department's 402, December 18, 2 p. m.³⁸ The fact that the statement of this Government's position which is set forth in the telegram under reference deals only with commercial aspects of our relations with Japan does not signify that this Government has modified in any way its position with regard to other aspects of our relations with Japan. This Government of course continues to adhere to the full import of its position as set forth on numerous occasions in communications to the Japanese Government, especially in this Government's communications of October 6³⁹ and December 31 [30], 1938.⁴⁰

HULL

711.942/389 : Telegram

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

TOKYO, December 19, 1939—7 p. m.

[Received December 19—9:40 a. m.]

691. Yoshizawa called Dooman in today in order to clarify certain points which arose in the course of my conversation yesterday with the Minister for Foreign Affairs, as follows.

1. Mention is made in the penultimate sentence of the Foreign Minister's *pro memoria* to "formalities" (see our 687, December 18, 10 p. m.⁴¹). One of the formalities which will require time is the obtaining by the Japanese Government of the Privy Council's informal assent before concluding a *modus vivendi*. As the protracted new year holidays will intervene before the expiration of the current Treaty of Commerce, the desire of the Japanese Government that conversations be initiated prior to the Christmas holidays will be understood.

2. A draft of a *modus vivendi* has already been telegraphed textually to the Japanese Embassy at Washington which is now in a position to receive inquiries from the Department with regard to procedural and other matters relating to the proposed *modus vivendi*.

3. My interview yesterday with the Minister for Foreign Affairs, I had commented adversely on the offers made by the Japanese Consulate General at Shanghai for payments against American claims for damages (see paragraph 3 of my 685 [688], December 18, 11 p. m.).

³⁸ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 190.

³⁹ *Ibid.*, vol. I, p. 785.

⁴⁰ *Ibid.*, p. 820.

⁴¹ *Ibid.*, vol. II, p. 48.

The seeking by the Japanese Consulate General of acceptance by the respective American claimants of the Japanese offers before approach was made to the American Consulate General was "unauthorized and unfortunate". Such method created the impression that the Japanese offers were intended to be substantially final whereas as stated in paragraph numbered 1 of the above mentioned *pro memoria* they are open to revision. Such revision would be made upon re-examination of present evidence or in the light of any further evidence on Japanese responsibility for damages which might be put forward in each case.

GREW

711.942/393 : Telegram

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

TOKYO, December 20, 1939—11 a. m.

[Received December 20—7:50 a. m.]

692. Department's 402, December 18, 2 p. m.,⁴² and 403, December 18, 5 p. m.

1. The principles and procedures laid down by the Government of the United States as fundamental conditions for entering upon treaty negotiations are sound and unassailable.

2. With regard to the last paragraph of the Department's telegram under reference the question of negotiating a new commercial treaty or agreement has now, of course, been raised by the Japanese Government. The Department's statement, both in its tone and in its content, is a wholly admirable presentation of our position and would, I believe, be of great value if it could be communicated to the Japanese Government, especially as it confirms in almost every particular the view which we have informally expressed to the Foreign Office on many occasions during the past few months. I therefore recommend that I be authorized to present it textually to the Minister for Foreign Affairs at the moment of communicating to him the Department's reply to his proposal for commencing treaty conversations, labeling it as responsive to a question which he raised during our conversation on December 18.

3. The Department observes in paragraph 6 of telegram No. 402 that the Government of the United States will be glad to have evidence of the steps which the Japanese Government is taking towards giving practical effect to its expressed desire and intention to meet the considerations set forth by the American Government.

4. A close study of the statement made to me by the Foreign Minister on December 18 (our 687, December 18, 10 p. m.⁴³) will indicate

⁴² *Foreign Relations, Japan, 1931-1941, vol. II, p. 190.*

⁴³ *Ibid.*, p. 48.

that the desired evidence is already in some measure forthcoming and that while progress in implementing its assurances may not be rapid or immediately effective, nevertheless it is unquestionably clear that the Japanese Government is now embarked upon a new orientation, namely a policy of respecting American rights and interests in China.

5. Whether the carrying out of this policy in fact is to be progressive and whether it will eventually lead to the development of a situation in China which the Government of the United States would regard as sufficiently responsive to our conditions for entering upon negotiations for a new treaty will depend in large measure upon the position which our Government now takes in response to Admiral Nomura's statement and proposals.

6. A highly placed Japanese who is fundamentally friendly to the United States and in whose judgment and directness I have full confidence told me yesterday that the Cabinet has "burned its bridges" and staked its reputation before the public in announcing its decision to open the Yangtze; that this decision was taken in the face of important opposition; that the Cabinet cannot now recede from its policy of conciliating the United States; that in the absence of some responsive gesture from the United States in reply to the proposal for treaty negotiations, the Cabinet would come under such a storm of protest in Japan that it could not survive, and that further progress in meeting American desiderata would then become almost impossible. This friend sees very clearly that the situation is not yet ripe for concluding a new treaty but he most strongly urges the offer of a *modus vivendi*, if necessary of limited duration, to tide over this most critical period in American-Japanese relations. His advice fully confirms and is almost completely identical with the views expressed in my 689, December 18, midnight.

7. In the light of the Department's request for my comments on the statement contained in Department's 402, I feel that this present telegram and my 689 fully cover the situation.

GREW

711.942/393: Telegram

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

WASHINGTON, December 21, 1939—7 p. m.

410. Continuing Department's 405, December 20, 7 p. m.,⁴⁴ as per last paragraph thereof.

1. Unless you perceive objection, in which case I should of course welcome a statement of your views, together with an indication of

⁴⁴ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 193; instruction approved by President Roosevelt.

your reasoning, I desire that you call upon the Minister for Foreign Affairs and make to him orally a statement substantially as follows:

The Government of the United States sincerely appreciates the efforts of the Japanese Government to remedy conditions adversely affecting relations between the United States and Japan and the indication of intent to persist in those efforts.

With regard to the statement made by the Minister for Foreign Affairs concerning the question of entering into negotiations looking toward the conclusion of a new treaty, the Government of the United States has prepared a statement of its position on this matter for the information and consideration of the Japanese Government. (It is suggested that you then hand the Minister for Foreign Affairs, as suggested by you, the statement quoted in the Department's telegram no. 402, December 18, 2 p. m.⁴⁵).

With regard to the question of concluding a *modus vivendi*, the Government of the United States suggests that this question remain open for the time being.

The Government of the United States believes that at this time it would be appropriate for there to be continued the discussions which have been going on between the Japanese Minister for Foreign Affairs and the American Ambassador to Japan in regard to the considerations bearing on the question of concluding a new commercial treaty or agreement between the United States and Japan.

2. In the course of the same conversation but as a separate statement please impart to the Minister for Foreign Affairs information as follows:

The United States Treasury Department is shortly issuing a communication to collectors of customs and others concerned in which it is stated that upon expiration of the treaty the 10 percent ad valorem discriminating duties for which provision is made in the Tariff Act of 1913⁴⁶ are not to be collected on goods entering the United States in Japanese ships unless and until further instructions are issued. A decision similar in effect has been reached by the Department of Commerce in regard to discriminating tonnage duties on ships.

HULL

711.942/421

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 22, 1939.

The Ambassador of Japan called at his own request. He said that he came in to bring to my attention the question of the renewal of the treaty of commerce and amity thus far existing between our two Governments, and especially to raise the question of a *modus vivendi* to be agreed upon, if possible, before the expiration of the present treaty. He proceeded to say that his Government was striving to cor-

⁴⁵ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 190.

⁴⁶ Approved October 3, 1913; 38 Stat. 114.

rect military abuses to our detriment in China, and that it would greatly strengthen its hand if some progress were made toward the renewal of the commercial treaty. He then very definitely expressed the hope that we could go forward. He suggested a *modus vivendi*.

I first expressed the appreciation of this Government for the efforts of the Government of Japan to abolish these injuries and abuses in China. I then continued by saying that Ambassador Grew has been carrying on conversations with the Japanese Foreign Minister in regard to a number of differences between our two Governments; that this Government has supplied him with all the necessary data for such conversations and discussions on all phases of the treaty of commerce and amity between our two countries; that this Government is now awaiting results from Tokyo; and that in the meantime it is keeping the matter of a *modus vivendi* open.

I soon gathered the impression that the Ambassador had come in for the purpose of offering me a copy of a proposed draft of a *modus vivendi*, and I accordingly endeavored in different ways to discourage him in advance by remarking that, of course, I was glad, as a matter of courtesy, to talk with the Ambassador, or to receive any views he was undertaking to express, but that I again should say that the discussions of the matter are in the hands of Ambassador Grew, and hence are being awaited before further discussions here. The Ambassador then handed me a draft of a *modus vivendi* together with a note and an additional explanatory statement.⁴⁷ I thanked him without looking at the papers, and added that I could only reiterate the statements I had already made, clearly setting forth the present attitude of this Government concerning all the matters of difference between our two Governments. The Ambassador said he understood but had evidently been instructed to hand me those papers in any event. He emphasized his readiness at all times to come in for further discussions, but I gave no indication in return.

C[ORDELL] H[ULL]

711.942/403 : Telegram

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

TOKYO, December 22, 1939—9 p. m.

[Received December 22—3:56 p. m.]

699. Department's 410, December 21, 7 p. m.

1. In my interview with Minister for Foreign Affairs this evening I conveyed to him orally the two separate statements substantially as set forth in paragraphs numbered 1 and 2 of the Department's

⁴⁷Draft not printed, but see telegram No. 415, December 27, 7 p. m., to the Ambassador in Japan, p. 631.

telegram under reference. The statement quoted in Department's 402, December 18, 2 p. m.⁴⁸ was read and handed to the Minister in the form of a *pro memoria*.

2. I likewise acknowledge receipt of Department's 405, December 20, 8 [7] p. m.⁴⁹ and 409, December 21, 5 [6] p. m.⁵⁰

3. The Minister replied orally in Japanese and the following is a translation of his remarks as later handed to me by the interpreter :

"The fact that the American Government has decided to take measures to facilitate normal commercial relations even after the termination of the effectiveness of the Japan-America commercial treaty and Your Excellency's efforts in this direction are greatly appreciated. However, the question of the commercial treaty is not limited to the commercial relations between the two countries but does rather in many ways relate to the general relations between our two countries. For example, even if commercial relations are maintained on a nearly normal basis without specific agreement, it is impossible to forecast day to day conditions in such relations. This is an uncertain prospect. In view of these considerations and looking to the improvement of relations between the United States and Japan from the broad viewpoint, I earnestly request that Your Excellency's Government give very careful consideration to the question of concluding a *modus vivendi*.

I may inform Your Excellency that, as Mr. Yoshizawa, Chief of the American Bureau, has already communicated to Mr. Dooman, Counselor of Your Excellency's Embassy, the Japanese Government after careful study of the question from the above viewpoint has prepared a draft *modus vivendi* and has telegraphed this draft to Ambassador Horinouchi in Washington; and has informed that he may submit the draft plan to the State Department in Washington at a propitious moment during his conversation there."

4. In subsequent conversation I repeatedly made clear the fact that what is now needed is concrete implementation of Japanese assurance that the American rights and legitimate interests in China will be respected on a non-discriminatory basis.

5. The following press release was mutually agreed upon in substance and definite assurances were given me that no publicity beyond release would be given out by the Foreign Office:

"The Minister for Foreign Affairs and the American Ambassador this afternoon continued their conversations with regard to matters of interest to the two countries. Both the Minister and the Ambassador indicated a mutually helpful attitude towards a solution of the problems under discussion. Progress was made. The conversations will be continued."

6. I am informed by American newspaper correspondents that in spite of the foregoing assurances the spokesman of the Foreign Office

⁴⁸ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 190.

⁴⁹ *Ibid.*, p. 193.

⁵⁰ Not printed.

later gave out a statement to the effect that I had assured the Minister that a non-treaty situation would not arise. It is needless to say that in my presentation to the Minister I adhered strictly to the precise letter of the Department's instructions. The reasons for this inaccurate and unauthorized publicity are obvious.

GREW

711.942/403 : Telegram

*The Secretary of State to the Counselor of Embassy in China (Peck), at Chungking*⁵¹

WASHINGTON, December 22, 1939—7 p. m.

240. Referring to a conversation which the American Ambassador to Japan had today with the Japanese Minister for Foreign Affairs on the subject of Japanese-American relations, the American Ambassador and the Japanese Minister for Foreign Affairs mutually agreed upon a press release reading as follows:

"The Minister for Foreign Affairs and the American Ambassador this afternoon continued their conversations with regard to matters of interest to the two countries. Both the Minister and the Ambassador indicated a mutually helpful attitude towards a solution of the problems under discussion. Progress was made. The conversations will be continued."

No statement that the American Ambassador gave any "assurances" or pledges to the Japanese Minister for Foreign Affairs is warranted. You are authorized so to inform the Foreign Office informally and similarly to inform any inquirers.

Sent to Chungking. Repeated to Peiping and Shanghai.

HULL

711.942/404 : Telegram

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

TOKYO, December 23, 1939—1 p. m.

[Received December 23—3:25 a. m.]

700. Our 699, December 22, 9 p. m., paragraph 6.

1. The Foreign Office spokesman released last night a statement in Japanese, of which the following is our translation:

"During the conversation on December 22 between Foreign Minister Nomura and Grew, the latter indicated on the basis of instructions which he had received from his Government that a treatyless situation will probably not arise between Japan and the United States.

⁵¹The same telegram to the Embassy in France, December 22, 7 p. m., as No. 1556, and to the Embassy in the United Kingdom, December 22, 8 p. m., as No. 1663.

Although further conversations will be necessary to determine what measures are to be taken, a strong light has been cast on the situation with regard to which there has been apprehension in commercial circles both in Japan and the United States. It has been made clear that favorable developments in relations between the two countries are to take place."

2. We are informed that the Foreign Office gave out no other version.

GREW

711.942/403: Telegram

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

WASHINGTON, December 23, 1939—2 p. m.

413. Your 699, December 22, 9 p. m., paragraph 6, and 700, December 23, 1 p. m. We consider it very unfortunate that the Japanese Foreign Office is issuing publicity of a character calculated to give rise to unwarranted expectations on the part of the Japanese people. We desire that, unless you perceive substantial objection, you so inform the Foreign Office and that at the same time you definitely intimate, as under instruction, that if the Foreign Office goes beyond the bounds of agreements between the Embassy and the Foreign Office in matters of publicity your Government will of course be obliged to consider the issuing to the press by it of appropriate statements, including, if need be, denials.

HULL

711.942/416: Telegram

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

TOKYO, December 27, 1939—3 p. m.
[Received December 27—9:18 a. m.]

708. Department's 413, December 23, 2 p. m.

1. Yesterday I communicated orally the substance of the Department's telegram under reference to the Minister for Foreign Affairs through Yoshizawa. The Foreign Minister replied today through the same channel that the statement actually made by the Foreign Office spokesman (see our 700, December 23, 1 p. m.), which was an oral one, did not go beyond the substance of the official communiqué which the Foreign Minister and I had agreed upon. He said that an explanation by Suma would be sent to me today.

2. The Foreign Minister also desired that my attention be called to a story which appeared in one paper this morning to the effect that

he had reported at yesterday's Cabinet meeting the receipt of assurance from me of the desire of the United States to avoid a treatyless situation. He wished to emphasize that the story was made out of whole cloth, as he had reported nothing of the kind.

GREW

711.942/421 : Telegram

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

WASHINGTON, December 27, 1939—7 p. m.

415. Department's 412, December 23, 1 p. m.⁵² The draft mentioned in the Department's telegram under reference is in the form of a proposed exchange of notes and provides on a reciprocal basis for (1) most-favored-nation treatment in matters relating to commerce, navigation and tariffs, (2) liberty of entry, travel and residence for the purpose of carrying on trade, and (3) national or most-favored-nation treatment in regard to taxes, imposts or charges either direct or indirect. The draft further provides that the proposed arrangement remain in effect for 6 months after January 26, 1940, and thereafter until 3 months have expired from date on which either of the two governments shall have given notice of intention to terminate it.

We feel that this proposal of the Japanese Government has been disposed of for the time being by what I said to the Japanese Ambassador on the occasion of his approach on December 22 and by what you said on the same day to the Japanese Minister for Foreign Affairs. It is our thought that if either the Department or the Embassy is again approached on this subject we should refer to the statement which you gave to the Minister for Foreign Affairs on December 22 (as contained in the Department's 402, December 18, 2 p. m.⁵³) and say that we consider that we should await developments; and that we believe that the conversations now taking place at Tokyo between officers of the Embassy and the Foreign Office appear to offer the most expedient and practical means at the present stage for exploring avenues of adjusting relations between the United States and Japan.

We have furnished the Japanese Ambassador here at his request with the text of the statement quoted in the Department's 402, December 18, 2 p. m.

HULL

⁵² Not printed; it reported the conversation of December 22, p. 626.

⁵³ *Foreign Relations, Japan, 1931-1941*, vol. II, p. 190.

711.942/418: Telegram

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

TOKYO, December 28, 1939—noon.
[Received December 28—7:22 a. m.]

710. Our 708, December 27, 3 p. m.

1. Suma's explanation reads as follows:

"Due to the fact that the interview between the Foreign Minister and the American Ambassador was held with a very constructive spirit and a mutually helpful attitude as well as the fact that progress was made, Mr. Suma tried to convey such atmosphere of the meeting from an objective standpoint to the reporters who were waiting for some announcement. Then he added a remark to the effect that the removal of material difficulties arising from the expiry of the commercial treaty might be expected. If there has been any misunderstanding with reference to what he said, it is due to mistranslation of his verbal remarks. The primary purpose of his remarks was simply to convey faithfully the atmosphere pervading the interview between the Foreign Minister and the Ambassador."

2. The Foreign Office sent us a copy of the following excerpt from the record of yesterday's press conference at the Foreign Office:

"At the press conference of Mr. Suma with foreign correspondents on December 27, Mr. Hugh Byas of the *New York Times* put in the query 'Will not the effects of the American Government's decision not to impose tonnage duties and other tariffs on Japanese goods and shipping⁵⁴ practically remove the possible effects of the non-treaty situation?'

To this Mr. Suma explained: 'Materially speaking, the commercial transactions between Japan and the United States will be carried on just as they have been in the past as the consequence of the steps taken by the American Government. As for the rights for residence, and other matters, I believe and hope that they will be amicably settled through negotiations. A few newspapers reported as if Ambassador Grew gave the Foreign Minister an assurance that a non-treaty situation will not arise in return for Japan's offer to reopen the Yangtze River, but they are mistaken.'

GREW

711.942/419: Telegram

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

TOKYO, December 28, 1939—6 p. m.
[Received December 28—9 a. m.]

712. Our 708, December 27, 3 p. m.

1. Most of the papers this morning carry stories which reflect the pessimism characterizing the statements yesterday of the Foreign

⁵⁴ See press release No. 19-75, issued by the Treasury Department December 22, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 195.

Office spokesman to both Japanese and foreign correspondents. The following is a summary of the *Asahi's* article:

"The feeling of optimism prevailing after Ambassador Grew's intimation that a treatyless period might be avoided is not justified because many important matters such as the right of residence of merchants, consular rights, trade marks, et cetera, will remain unsettled by the administrative orders not to apply discriminatory taxes, et cetera, against Japan. It is significant that the American Government has already urged the placing of moral embargoes against Japan in regard to certain military supplies.⁵⁵ The American action in abrogating the treaty was not designed to injure commercial relations but to make possible the imposition of an embargo. Hence the administrative orders above mentioned cannot interfere as an expression of a friendly spirit. By announcing the impending opening of the Yangtze and Pearl Rivers the Japanese Government has undertaken in good faith to work for peace and adjustment of American-Japanese relations. If the American Government makes no friendly response grave injury will be done to those relations for which the responsibility must rest with America."

2. The article which appeared in the *Kokumin* is of especial interest. This paper has never taken an optimistic view of the situation and has consistently attacked the Government for the decision to reopen the Yangtze:

"To the Foreign Minister's preliminary effort to improve relations with America by the Yangtze offer the American Government has responded merely with certain administrative measures designed to mitigate the effect of a treatyless condition. Furthermore, the American Government has not only postponed negotiations for a treaty or a *modus vivendi* but has also brought up the matter of the Open Door in China. Thus the American Government ignores the new order in Asia and Japan's special position. Despite the grave aspects of the matter the Foreign Office spokesman made an unduly optimistic statement, whereupon Counselor Dooman visited the Foreign Office and declared as follows: 'Although the Foreign Office spokesman's statement conveys the impression that treaty negotiations have already commenced, the facts are the contrary, and the American Government may be obliged to issue a correction. If such statement is the result of a misunderstanding by the authorities, a correction should be made, but if on the other hand the statement was issued for purposes of internal policy I wish to point out the dangerous effect on public feeling when eventually the facts are learned.' Mr. Dooman's declaration makes it plain that there will be no treaty after January 26 and that the only thing remaining will be certain exemptions unilaterally extended which are subject to instant cancellation by the United States. His declaration makes it plain that by using the treaty as a weapon the United States is attempting to prevent the progress of the China affair and the establishment of the new order, thus the meaning of the Yangtze offer is being ignored by the American Government and the inefficiency of Foreign Minister Nomura's diplomacy is being exposed."

⁵⁵ See pp. 475 ff.

3. It is clear that the difficulties involved in setting up a new treaty of commerce and navigation or a *modus vivendi* are now being seen here in accurate perspective.

GREW

711.942/297

The Secretary of State to the Secretary of Labor (Perkins)

WASHINGTON, December 28, 1939.

MY DEAR MADAM SECRETARY: Reference is made to your Department's letter under date October 9, 1939, and the Department's reply thereto of October 23,⁵⁶ in regard to questions presented by the forthcoming termination of the commercial treaty of 1911 between Japan and the United States as it affects the status of Japanese treaty merchants now residing in the United States. It was stated in the Department's letter under reference that the Department would expect to communicate again with the Department of Labor before the date upon which the treaty of 1911 will terminate in regard to question 2 in the enclosure to your Department's letter of October 9, which reads as follows:

"If no rulings have yet been adopted does the Commissioner of Immigration and Naturalization interpret the regulations now in effect in such a manner as to permit Japanese Treaty traders to remain in this country for the purpose of carrying on trade after January 26, 1940, the date upon which the Commercial Treaty of 1911 terminates?"

It was stated in your Department's letter of October 9 that the Commissioner of Immigration and Naturalization was inclined to suggest that aliens whose status as "treaty merchants" would lapse in the absence of treaty provisions within the meaning of Section 3 (6) of the Immigration Act of 1924,⁵⁷ as amended, may be allowed to qualify as visitors temporarily admitted for business under Section 3 (2) of the Immigration Act of 1924, and that the Immigration and Naturalization Service was prepared to be guided by the advice of the Department of State on this subject.

The Department is of the opinion that, in the case of aliens whose status as "treaty merchants" will lapse upon the termination on January 26, 1940, of the Treaty of Commerce and Navigation of 1911 between the United States and Japan, it would be appropriate to follow the procedure suggested in your Department's letter under reference.

Sincerely yours,

For the Secretary of State:
G. S. MESSERSMITH
Assistant Secretary

⁵⁶ Neither printed.

⁵⁷ Approved May 26, 1924; 43 Stat. 153.

894.00/885 : Telegram

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

Tokyo, December 29, 1939—7 p. m.

[Received December 29—9:57 a. m.]

715. Our 713, December 28, 7 p. m.⁵⁸ Premier Abe replying at a press conference yesterday afternoon to the recent resolution of Diet members requesting the Cabinet's resignation, asserted that his Cabinet would not resign because of internal difficulties but would proceed toward accomplishment of its major objective, the settlement of the China incident. While admitting the seriousness of the problems of prices and supply and commodities, he placed the blame largely on the adjustments necessary in changing from a liberal economy to a planned and controlled economy. He stated that the new central government in China will be established early next year.

With regard to American-Japanese relations, the Premier characterized the American Government's decision to withhold imposition of special taxes and tonnage dues on Japanese commerce as a unilateral temporary measure taken at the discretion of that Government and he pointed out that the United States thereby maintains complete freedom of action. The Cabinet, he said, is considering security measures to be taken should developments under a treatyless period reach the worst possible state, but conversations at the present time are directed toward avoiding this undesirable outcome. He expressed the hope that the present treaty might be revised in such a way as to make it suitable to present conditions. He added that Japan in deciding to reopen the Yangtze does not intend to carry on negotiations on a bargaining basis and did not make the decision as a bait to elicit concessions from third countries. He said that the reopening of the river has been under consideration since last year and that it has always been Japan's intention to reopen the Yangtze as soon as military exigencies permitted. In view of the impossibility of the revision of the treaty before January 26, he expressed the hope that a temporary suitable arrangement might be achieved.

Cipher text by airmail to Peiping, Shanghai.

GREW

⁵⁸ Vol. IV, p. 454.

CONSIDERATION OF POSSIBILITIES OF FINANCIAL AID TO CHINA⁵⁰

893.00/14296: Telegram

The Chargé in France (Wilson) to the Secretary of State

PARIS, January 4, 1939—3 p. m.
 [Received January 4—2:15 p. m.]

12. The Chief of the Far Eastern Division of the Foreign Office⁵⁰ expressed the view to me last night that Wang's⁵¹ defection has not weakened Chiang Kai Shek's⁵² position and that the latter is as determined as ever to see it through to the end. His information is that the American credit and hopes of a British credit have greatly encouraged the Chinese and that Chinese morale has definitely improved in the last 2 or 3 months.

Hoppenot said that recently the Japanese Chargé d'Affaires inquired whether France would grant a credit to China. He replied that he knew of no such plan at present. He added to me that if anything of this nature were done it would be through the Bank of Indo-China but that there was nothing definite in mind at present.

He expressed the view that with the militarists on top in Japan as a result of the Cabinet shake-up the army now would make a drive on Yunnan in the hope of shutting off Chinese supplies by the Burma route which is now operating fairly effectively.

WILSON

893.51/6759: Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, January 4, 1939—6 p. m.
 [Received January 4—6 p. m.]

14. Embassy's 1389, December 3, 2 p. m.⁵³ Leith-Ross⁵⁴ asked Butterworth⁵⁵ to lunch with him and Hall-Patch⁵⁶ to discuss the Chinese

⁵⁰ Continued from *Foreign Relations*, 1938, vol. III, pp. 519-591.

⁵¹ Reference is to Henri Hoppenot, who, on October 24, 1938, was transferred from the Far Eastern to the European Section as head of Section.

⁵² Wang Ching-wei, formerly Deputy Leader of the Kuomintang (Nationalist Party) at Chungking.

⁵³ Chairman of the Chinese Supreme National Defense Council and Leader of the Kuomintang.

⁵⁴ *Foreign Relations*, 1938, vol. III, p. 576.

⁵⁵ Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government.

⁵⁶ William W. Butterworth, Jr., Second Secretary of Embassy in the United Kingdom.

⁵⁷ E. L. Hall-Patch, Financial Adviser to the British Embassy in China.

currency loan project and the following is his account of the conversation of which the Department may care to apprise the Treasury.

Leith-Ross began by referring to Bewley's⁶⁷ conversation with Assistant Secretary Taylor⁶⁸ just before Christmas and indicated that the Prime Minister⁶⁹ had just given his agreement in principle to a note being sent to the United States which he hoped would clarify the British position somewhat but would again point out the importance of some parallel action being taken on the part of the United States.

In reply to a query I said that I did not feel competent to express any opinion on the question of policy involved in any parallel action by the two countries but I did point out the disparity between the amounts of financial assistance rendered to the Chinese by the British and the American Governments to date. Leith-Ross then said he hoped there could be embodied in the note the intimation that the two contributions need not be on a pound for pound basis; that the British Government was willing to go ahead with the project if both countries took a hand in it and in that case both he and Hall-Patch thought that the reaction in Japan would be restrained and the effect salutary. They then emphasized how the British had borne the main brunt of Japanese antagonism, how they had kept Hong Kong open despite French suggestions to the contrary, how likely was Japanese retaliation against their interests if they undertook this matter alone, and how strategically the Japanese were placed to retaliate. Leith-Ross further stated that the Chamberlain government feared that if the Japanese became aggressive against them, for example, in the International Settlement⁷⁰ there might be a further diminution of British prestige with consequent political repercussions at home. Both Hall-Patch and Leith-Ross felt that if the Chinese acquired 6 million pounds or more which would be skillfully administered, it would hold the currency position for some time without necessarily any losses occurring and that it would "buck up" the Chinese enormously.

The tentative plan on the part of the British seems to be as follows: the Hong Kong-Shanghai Banking Corporation is willing to put up £500,000 provided the British Government guarantees £2,500,000 the Chinese banks to arrange for their £3,000,000 contribution. The Hong Kong-Shanghai Banking Corporation, which is already operating as a fiscal agent for the Chinese monetary authorities, will continue to do so or at least have a "supervisory say" in the use of the ensuing fund so as to prevent Chinese private manipulation. They asked if in the event we agreed to come in, we could follow a

⁶⁷ T. K. Bewley, Financial Counselor to the British Embassy in the United States.

⁶⁸ Wayne C. Taylor, Fiscal Assistant Secretary of the Treasury.

⁶⁹ Neville Chamberlain.

⁷⁰ See also vol. iv, pp. 1 ff.

similar procedure with the American banks or, if that were politically inexpedient, we would make an advance to the Chinese Government or Bank of China and perhaps have Young⁷¹ or some one else designated to supervise the operations for our protection. This thinking out loud was followed by a "chance" suggestion by Leith-Ross as to whether, to obtain funds, we could make an advance against some of the silver held in the French and British Concessions in Tientsin.⁷²

I did not enter into any discussion on the political aspect of the United States acquiring an interest in the British and French Concessions which was already a source of friction with the Japanese but merely pointed out the difficulty of the stabilization fund justifying at some future date to Congress purchases of silver the possession of which it could not acquire.

I asked about what other measures of assistance to China the British Government was prepared to undertake and Leith-Ross indicated that about a quarter of the new £10,000,000 export credit which would shortly be passed by Parliament was being earmarked for China but that to date the Chinese continued to be slow and inefficient about putting forward workable projects. In fact they were still talking about long-term railway projects which seemed to him not really productive enough in the given circumstances. For example they needed oil badly. He had proposed to them that they fly oil from Burma, a matter of only 600 miles and by far the cheapest available method of transportation, but so far nothing had come of it. Incidentally Hall-Patch who has recently returned from Paris felt that the French might be induced to let more stuff through French Indo-China.⁷³

Leith-Ross said that the method of assisting China by penalizing Japanese trade had also been carefully considered. The Dominions would have to be brought into it and they would be the hardest hit by any trade war. The abrogation of existing commercial treaties and the imposing of certain punitive duties had not been entirely ruled out as a possible method but they were disposed to move cautiously in this matter and first see what could be done to help China to help herself.

I asked Leith-Ross about the attitude of the British interests in China towards measures which might provoke Japanese retaliation and he maintained that the more important British interests in China were coming rapidly to the view that it was better "to chance a harder kick in the pants now" than to endure the slow progress of attrition. He added that he had recently received a private letter from Keswick of Jardine, Matheson⁷⁴ in this sense. Hall-Patch indicated that

⁷¹ Arthur N. Young, American adviser to the Chinese Ministry of Finance.

⁷² See also vol. IV, pp. 163 ff.

⁷³ See also pp. 736 ff.

⁷⁴ British shipping company in China.

while this was true of the large corporations, the smaller British interests, which might not be able to withstand an immediate onslaught, preferred the ills they knew to those they knew not of; however, their voices were not loud in Whitehall or Westminster.

Incidentally Leith-Ross mentioned he had had a recent telegram from Tokyo to the effect that the Japanese foreign exchange problem was growing more acute and expressing the view that within 6 months they would be in real difficulties. I did not gather that Hall-Patch had necessarily modified the opinions he had expressed in Washington.⁷⁵

JOHNSON

893.51/6788

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom have now decided to introduce legislation that would enable them to support the Chinese currency by proceeding with the proposal outlined in paragraph 1 of the *Aide-Mémoire* left at the State Department on the 7th December,⁷⁶ provided that the United States Government are prepared to take parallel action to support the Chinese currency at the same time.

The United States Government are aware that His Majesty's Government have already allocated to China about £500,000 of credits which will become available when the Export Guarantee Bill is passed. In addition to this it is proposed to earmark further substantial amounts to assist Chinese Government purchases in the United Kingdom though this must of course on no account be disclosed to the Chinese at present. His Majesty's Government consider that this should be regarded as their counterpart to the commercial credits granted by the United States Government last month.

The Chinese Government meanwhile continue to press His Majesty's Government on the proposal for a guaranteed contribution of £3,000,000 to the projected currency stabilisation fund and attach particular importance to this form of assistance. From information now in their possession His Majesty's Government think the time has come when action of this kind might have the maximum of effect with the minimum of risk. Already the tone of the United States note⁷⁷ and the decisions to give credits have produced a salutary effect on the

⁷⁵ See memorandum prepared in the Department of State, December 5, 1938, *Foreign Relations*, 1938, vol. III, p. 577.

⁷⁶ *Ibid.*, p. 581.

⁷⁷ Dated December 30, 1938, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 820.

Japanese who have shown signs recently of being more accommodating, but the effect produced by parallel action of the two governments on the lines of simultaneous contributions to the currency stabilisation fund might, in the view of His Majesty's Government, be expected to be much greater. Moreover, the confidence of the Chinese in their ability to hold out and their morale generally would be enormously strengthened by such a gesture which might indeed prove the turning-point in the whole struggle and lead to the salvation of United States and British commercial interests. Furthermore, the psychological effect of this move might well show itself in an increased resiliency of the Chinese dollar, thus reducing the risk of the contributions to the stabilisation fund being lost.

Nor can the fear of the real danger be excluded lest, if nothing on these lines is done, the Chinese might be tempted to despair and make terms with the Japanese at United States and British expense. His Majesty's Government are accordingly anxious to take this action but they could not act alone. If the United States and His Majesty's Government act in harmony the danger of adverse Japanese political reactions affecting foreign interests in China would be minimized and the possibility of maintaining the "open door" would be increased.

His Majesty's Government are fully aware that the United States contribution in the form of (a) silver purchases and (b) the recent twenty-five million dollars credit⁷⁸ far exceeds the contribution which His Majesty's Government have so far been able to make in support of the Chinese currency structure but His Majesty's Government hope, for the reasons explained above, that the United States Government may nevertheless be prepared to participate in the currency stabilisation loan now proposed.

The procedure being considered by His Majesty's Government is to guarantee the Hong Kong and Shanghai Bank against loss but His Majesty's Government recognise that any parallel action by the United States Government might have to take a different form. His Majesty's Government do not regard it as essential that the amount of assistance granted by the United States Government should be identical with the amount which His Majesty's Government propose to guarantee. The essential points, in the view of His Majesty's Government, are that it should be made clear that the action is being taken by both governments to maintain their respective interests in China which would be seriously threatened by a collapse of the Chinese currency, and that the proposed assistance and encouragement should be given to China at a very early date.

⁷⁸ See press release P-1463 issued by the Reconstruction Finance Corporation on December 15, 1938.

His Majesty's Government hope that the United States Government may feel able to take parallel action of the kind suggested. They would, moreover, be grateful for a very early reply.

WASHINGTON, January 6, 1939.

893.51/6768 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 10, 1939—11 a. m.

[Received January 10—9:55 a. m.]

23. In the course of a conversation with Colonel Chennault, American Aviation Adviser, January 9, 9 p. m., he referred to press reports that a portion of the \$25,000,000 credit recently granted to the Universal Trading Corporation was being used to finance sale of hundreds of motor vehicles for use on the Burma Highway and on the basis of his observation of the Chinese use of foreign mechanical equipment he expressed the opinion that, if the report were true, it was highly desirable to provide for American supervision of the use of these vehicles. Such supervision should include the construction of filling stations, roadway stations, and especially of the training of Chinese drivers whose generally unintelligent use and care of motor vehicles ordinarily made them useless in 6 months in severe service conditions. However, he foresaw the Chinese might be unwilling to accept such foreign supervision since the usual attitude of the Chinese authorities toward foreign advisers was one of arrogance, jealousy, and non-cooperation at least so far as concerned Chinese military officers. He said that there was a considerable force of Russian aviators operating Russian planes on duty in China but this force was comparatively inactive because the Chinese failed to cooperate loyally in tactical operations. I have not discussed with any Chinese the charge often made by foreign critics that the Chinese will not listen to advice nor give effective cooperation, but I am inclined to think that if freight traffic on the Burma highway is controlled by the civil branch of the Chinese Government, it might be possible to introduce foreign supervision and that it would be highly useful.

PECK

893.51/6769

Memorandum of Conversation, by the Under Secretary of State (Welles)

[WASHINGTON,] January 10, 1939.

The British Chargé d'Affaires⁷⁹ called to see me this afternoon at my request. I told him that I had consulted the Treasury Department

⁷⁹ V. A. L. Mallet.

with regard to the request of the British Government contained in the *aide-mémoire* dated January 6 which Mr. Mallet had left with me last week, and that I had also discussed the questions involved very fully with the President. I told Mr. Mallet that the President had requested me to convey to him for the information of his Government the following considerations:

The Government of the United States not only through the extension of the Export-Import Bank credit mentioned in the British *aide-mémoire* but through the purchase by the United States Treasury Department of Chinese silver over a long continuing period has taken measures which in their effect have done much to stabilize Chinese currency. The Government of the United States is giving consideration to various further possibilities along the lines involved in these two policies, and it is possible that this Government may consider it desirable to extend further credits of the same character as that recently undertaken by the Export-Import Bank and to consider further purchases of silver similar to those already undertaken.

This Government is not prepared to participate in the loan under consideration by the British Government to the Chinese Government because of the fact that it is doubtful whether the executive branch of the Government has the power to enter into such an arrangement without the specific authorization of the Congress, as well as for other reasons. This Government, however, would be prepared, should the British Government determine on its part to make the loan which it had under consideration to the Chinese Government and should the Government of the United States determine for independent reasons that it was expedient and possible for it either to extend further credits through the Export-Import Bank or to undertake further purchases of Chinese silver, to make announcement of such transactions simultaneously with the announcement by the British Government of its willingness to make a loan to the Chinese Government for the purpose of stabilizing Chinese currency. In other words, this Government would be prepared to take parallel action, although not action identical to that under consideration by the British Government, and the action which would in such event be undertaken by the Government of the United States would unquestionably have the same effect in stabilizing Chinese currency as that being considered by the British Government.

Mr. Mallett told me that he would communicate these considerations to his Government and would advise me of the British Government's reaction.

S[UMNER] W[ELLES]

893.51/6768

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] January 11, 1939.

Reference, Chungking's No. 23, January 10, 11 a. m.

In the course of a conversation with Mr. Welles (Mr. Hornbeck

being present) on January 9, Mr. K. P. Chen,⁸⁰ having stated that he had recently participated in the concluding of a contract at Detroit whereby the Chinese Government was purchasing one thousand trucks from General Motors and the Chrysler Company, Mr. Chen said that two automotive engineers had been engaged, in connection with the contract to go to Rangoon, to participate in the assembling, etc., essential to the delivery and putting on the road of the trucks.

Today, in reply to a question by Mr. Hornbeck, Mr. Chen added that these two engineers are being retained for at least nine months and are to participate in the maintenance of the service of the trucks.

STANLEY K. HORNBECK

893.51/6830

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom are most grateful to the United States Government for the helpful attitude which they have adopted with regard to His Majesty's Government's proposal for assisting China by means of a currency loan. In the light of the President's views, which the Under Secretary of State was so good as to convey to Mr. Mallet on the 11th January,⁸¹ His Majesty's Government now intend to proceed with an examination of details of their project for assisting the Chinese currency. They will of course keep the United States Government informed of the progress they make.

Meanwhile they will be grateful if they may be furnished when this becomes possible with further information, in a form as detailed as the United States Government may feel able to give, as to the nature of the parallel action which the United States Government hope to take. This would be helpful to His Majesty's Government in the event of their deciding to proceed, as they would have to introduce legislation and may therefore be in a position where they would wish to state what is parallel and simultaneous action which United States are prepared to take.

An unexpected complicating factor has however been introduced by the recent decision of the Chinese Government to suspend the service of foreign loans secured on the Customs.⁸² In the view of His Majesty's Government this step is bound to prejudice efforts to maintain the credit of China and before they undertake to contribute to any stabilization fund it will be necessary to secure that all possible measures are taken to restore security for their loans. For this pur-

⁸⁰ Adviser to the Chinese Ministry of Finance.

⁸¹ See memorandum of January 10, p. 641.

⁸² See the Chinese Embassy's communication of January 15, p. 804.

pose the first essential is to persuade the Chinese Government for their part to permit the implementation of the arrangement relating to the China Customs negotiated by His Majesty's Ambassador at Tokyo with the Japanese Government on 2nd May last.⁸³ His Majesty's Government are convinced that this arrangement is in best interests of China and affords the only basis for attempts to maintain the integrity of the China Customs.

WASHINGTON, January 24, 1939.

893.51/6860

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 27, 1939.

Under instruction by the Under Secretary, Mr. Welles, given orally, Mr. Hamilton present,⁸⁴ I asked the British Chargé d'Affaires, Mr. Mallet, to call on me at his convenience today. Mr. Mallet came to my office and, telling him that, in the light of the second paragraph of the British Embassy's *aide-mémoire* of January 24, we felt slightly uneasy lest the British Foreign Office might be assuming more than it should on the basis of previous conversations with regard to its recent proposal for assistance to China, and also that we were somewhat uneasy over the idea of the British Foreign Office that it might to advantage make use in Parliament of statements indicative of an intention on the part of the American Government to take certain steps on parallel lines on a basis more or less of an agreed-upon co-operation between the two Governments, I gave Mr. Mallet, as a record of an oral statement for the phrasing of which I was assuming sole responsibility, an informal memorandum, an exact copy of which is here attached.⁸⁵

Upon reading this memorandum and reviewing the second paragraph of the British Embassy's *aide-mémoire* under reference, Mr. Mallet made the observation that he had understood from what Mr. Welles had said to him⁸⁶ that the American Government would be prepared to take parallel action but had not been prepared at the time when Mr. Welles' statement to him had been made to say what form its parallel action would be given. He said that he would have to consult his records in order to refresh his mind as to the exact words in which he had reported his understanding of the matter to his Government.

⁸³ For text of arrangement, see telegram No. 584, April 26, 1938, 3 p. m., from the Consul General at Shanghai, *Foreign Relations*, 1938, vol. III, p. 683.

⁸⁴ Maxwell H. Hamilton, Chief of the Division of Far Eastern Affairs.

⁸⁵ *Infra.*

⁸⁶ See memorandum of January 10, p. 641.

I then took occasion to give Mr. Mallet my understanding that Mr. Welles had said that we would hope to be able to take parallel action, we would study the question, and, if we found ourselves able to take parallel action, we would be prepared to make an announcement of our intention simultaneously with an announcement by the British Government, if and when, of its intention. Mr. Mallet said that he would make sure that his Government had not misunderstood.

I then took occasion to emphasize the point made in the last sentence of the informal memorandum which I was giving Mr. Mallet. I said that in our opinion nothing could be more stultifying to the possibility of parallel but independent and separate action by the two Governments, insofar as this Government is concerned, than publicity the impression produced by which would be that of an Anglo-American act of collusion toward coercing Japan and therefore incurring risks attendant upon such a course. Mr. Mallet said that he thoroughly understood this and that he had been surprised at the request made by his Government and especially the statement made by them in the second sentence of the second paragraph of his Embassy's *aide-mémoire*.

STANLEY K. HORNBECK

893.51/6860

*Statement by the Adviser on Political Relations (Hornbeck)*⁸⁷

[WASHINGTON,] January 27, 1939.

Reference, the British Embassy's *aide-mémoire* of January 24 on the subject of a proposed currency loan for assistance to China and parallel action.

The American Government is giving consideration to the matters dealt with in the note under reference. Meanwhile, the Under Secretary, referring to the statement made by him to the British Chargé d'Affaires on January 10, wishes to make sure that it was and is understood by the British Embassy and the British Foreign Office that in what he, the Under Secretary, said to the Chargé, he was participating in a confidential conversation and he, on behalf of the American Government, was not promising that this Government would take steps toward assisting China such as were expressly under discussion. The Under Secretary wished to enter a caveat against there being brought to light in discussions in other than British confidential circles, any account of what has been said thus far by this Government in regard to this subject.

⁸⁷ Copy of informal memorandum of oral statement made to the British Chargé on January 27.

893.51/6790 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*LONDON, January 30, 1939—8 p. m.
[Received January 30—6:30 p. m.]127. My 126, January 30, 7 p. m.⁸⁸

1. When I saw Lord Halifax⁸⁹ this afternoon he referred to tentative British plans for supporting Chinese currency reported in my 14, January 4, 6 p. m. He did not go into details but indicated that the possibility of this action is being actively examined particularly with a view to securing satisfactory assurances and guarantees from the Chinese. He indicated clearly, however, that there [*they?*] were reluctant to go into the venture without the support of the United States and said that Great Britain did not want to be left "holding the bag."

2. In regard to possible counter measures, with respect to Japan (Embassy's 13 [1390] of December 3, 3 p. m.⁹⁰), I have received through the courtesy of the Foreign Office a copy of the communication recently sent to the Department through the British Embassy in Washington⁹¹ outlining in some detail tentative British views in regard to such measures. From private talks with officials who were concerned in the preparation of this report I have the impression that they are very desirous of an expression of opinion from the Department in regard to their memorandum; that they are extremely reluctant to embark on any policy or measures which would not offer more than a reasonable chance of success in accomplishing their purpose and that the efficiency of any such measures would in the British view depend very largely on the measure of American cooperation. It was also intimated that the British are not inclined to adopt measures so drastic that they would have the effect of "breaking" Japan. It would seem that their view is that a real crack-up in Japan might have more disastrous consequences to British interests in the Far East than even present conditions.

JOHNSON

611.939/82 : Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, February 1, 1939—7 p. m.

22. Reference Shanghai's telegram January 30, 4 p. m.,⁹⁰ in regard to complaint of Henningsen Produce Company. Department does

⁸⁸ Printed in vol. I, section entitled "Speculation as to Axis Designs . . ."⁸⁹ British Secretary of State for Foreign Affairs.⁹⁰ Not printed.⁹¹ See *aide-mémoire* from the British Embassy, January 25, p. 490.

not, upon the showing made and in view of all the attendant circumstances, feel that a protest against the restrictive instructions in question would, in the absence of discrimination against American interests, be warranted. Department does, however, authorize you, in your discretion, to make an informal approach to the Chinese Foreign Office for the purpose of informing it of the reported destination of the eggs which the Henningsen Produce Company desires to ship and of the benefits that would accrue to the Chinese Government from such shipment, with the object of persuading the Government to make an exception in the case under consideration.

Repeated to Peiping and Shanghai.

HULL

893.51/6796 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 6, 1939—3 p. m.

[Received February 7—5 a. m.]

78. My 77, February 6, 2 p. m.⁹² During the same interview Kung⁹³ said that he was very disturbed at Japan's endeavors to obtain control of China's currency which was just as serious a threat to China as military operations. He heard that the Japanese were about to create a "new China bank" at Shanghai to dominate currency and economic activities generally in Central China and he suspected that they intended to utilize accumulated customs revenues to the extent of Chinese dollars 150,000,000 as the capital of this bank. Information had reached him that they intended to peg the new currency at 8 pence to the dollar.

Although critical of the British attitude toward the controversy in general, he said that in currency matters Great Britain had been more helpful than the United States in one particular, that is, shortly after enactment of the currency legislation of November 1935 the British Government issued an Order in Council making this legislation mandatory on British subjects in China and the authorized note issue therefore became for British subjects the only legal tender. Recently when the Japanese attempted to foist the Federal Reserve Bank note issue on the public in North China British banks had begun to deal in it but when the Chinese Government pointed out that this was forbidden by the Order in Council British banks recognized this and refused further transactions in the Japanese instigated note issue.

⁹² *Post*, p. 813.

⁹³ H. H. Kung, President of the Executive Yuan and Minister of Finance.

Kung said the Chinese Government assisted British banks to avoid depletion of Chinese national currency by turning over to them in Hong Kong supplies of that currency. In contrast with this support of national currency Kung said that he had received a report from Tientsin that the National City Bank had sent a circular to its depositors reserving the right to close out accounts in national currency which action naturally encouraged the use of the Federal Reserve Bank notes. (See Peiping's 47, January 23, 3 p. m.⁹⁵) Note: the British Embassy is unable to confirm or deny the statement above that British banks are refusing to deal in the Federal Reserve Bank notes.

Repeated to Shanghai, Peiping. Peiping mail code text to Tokyo.
PECK

740.00/589: Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, February 20, 1939—8 p. m.
[Received February 20—5: 12 p. m.]

255. Personal for the Secretary of State. I have just had a long talk with Halifax. He told me that on Wednesday they expect to come to a decision on a loan to China, which he is of the opinion they will make. He realizes that America has done much more for the Chinese than England has, but he thinks that a straight loan, such as they contemplate making, will be much more provocative, and he is hopeful that, at the time of the announcement, somebody will rise up and say that, after all, America has done such and such and so and so, the idea being to show that the two countries have helped China.

[Here follows report on European matters.]

KENNEDY

893.51/6818: Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, February 24, 1939—7 p. m.
[Received February 24—3: 44 p. m.]

268. With reference to the information contained in the third paragraph of my 259, February 23, 2 p. m.,⁹⁶ the British Treasury states that legislation will be required to empower the Government to give

⁹⁵ Not printed.

⁹⁶ Printed in vol. I, section entitled "Speculation as to Axis Designs . . ."

an indemnity against loss to the Hong Kong-Shanghai Banking Corporation and the Chartered Bank of India which will advance the necessary funds. During the next few days the rate of interest for this advance will be determined with these two banks and the Chinese monetary authorities are being consulted as to whether the Chinese banks are prepared to advance a similar sum. The arrangement will be terminable after the period of a year. It is expected that a controlling body will be organized to supervise the exchange transactions, composed of Chinese representatives, general representatives of the two British Far Eastern banks and of the British monetary authorities; presumably Rogers⁹⁷ will be a participant. It is hoped that a public announcement can be issued within a week and endeavors are being made to persuade the French to announce at the same time that they are considering making a suitable, though not necessarily similar, contribution to China.

Casual inquiry regarding the customs loans elicited the information that strong pressure is continuing to be exerted on the Chinese Government "to make an offer that is reasonable and appropriate to their circumstances". The British authorities seem bent on getting the Chinese to implement the Anglo-Japanese customs understanding but it also seems likely that the British do not consider that a great distinction exists between the customs and other Chinese loans; what they want is the servicing of sterling obligations.

KENNEDY

611.939/99 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 1, 1939—3 p. m.

[Received March 1—10 : 22 a. m.]

147. Department's 22, February 1, 7 p. m. Following is Embassy's translation of circular note from the Foreign Office dated February 25 received February 28.

"The Ministry has received a letter from the Ministry of Economics Affairs stating :

"This Ministry has designated the names of articles of aid to the enemy and the areas into which shipment of such articles is prohibited. In connection with the purchase and shipment to the Concessions in Shanghai by the factories and merchants of the friendly nations of articles of aid to the enemy, the transportation of which is prohibited, the Consuls of the respective friendly nations at Shanghai, of the Chambers of Commerce, of Guilds at the places from whence the articles are shipped shall issue certificates guaranteeing that they are not for the aid of the enemy. The merchants reporting goods for shipment shall submit the certificates to the customs for examination and release of the articles concerned.

⁹⁷ Cyril Rogers, of the Bank of England, adviser to the Chinese Ministry of Finance.

Apart from telegraphically asking the Ministry of Finance to wire instructions to the customs authorities directing them to act accordingly, it is requested that the diplomatic missions of the friendly nations in China be informed of the matter.⁷

There is enclosed a copy of the list of articles of aid to the enemy, the shipment of which is prohibited, for the Embassy's information, with the requests that instructions be issued to those concerned to take note."

The list of articles some 54 in number will be contained in a later report.⁹⁸

Repeated to Peiping and Shanghai.

PECK

893.51/6828 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, March 3, 1939—7 p. m.
[Received March 3—6:20 p. m.]

294. With reference to the Embassy's 268, February 24, 7 p. m., Sir Frederick Leith-Ross states in confidence that the British Government plans to make a public announcement on Monday, although the details have not been completed and cannot then be made known. Leith-Ross is concerned about the flight from the Chinese dollar which the recent Japanese measures to enforce their exchange control in North China have precipitated. The latest British telegraphic advices from China indicate that the Chinese banks lost the equivalent of £800,000 of foreign exchange last week and £2,000 on Monday and that the run is continuing. It is hoped that the announcement may stem the tide, for the Hong Kong-Shanghai Banking Corporation and the Chartered Bank of India are unwilling to start operations under the scheme until the legislation guaranteeing them against loss has at least passed the House of Commons.

Leith-Ross hopes that the formal documents will be completed towards the end of next week. They will consist of an agreement between the British and Chinese banks, an agreement between the British Government and the British banks and a declaration by the Chinese Government affirming its desire to preserve the value of its currency. The British Government will not require of the Chinese Government an indemnity against losses. Leith-Ross stated that this course was decided upon in the hope that it would produce a good psychological reaction in the Far East; in Parliament the line will be taken that this currency measure has been undertaken to protect British interests. Leith-Ross frankly added that if Japan should

⁹⁸ Not printed.

achieve her purposes in China a Chinese obligation would be worthless and if Japan did not succeed, the Chinese dollar which is undervalued would appreciate and the exchange fund could probably recoup losses. The exchange control committee will be constituted as set forth in the Embassy's 268, February 24, 7 p. m., and Rogers will be a member nominated by the British Government with the approval of the Chinese Government and act "as a watch dog for both sides". The amount involved has not yet been definitely fixed. The Cabinet authorized the Chancellor of the Exchequer⁹⁹ to go up to £5,000,000. The Chinese banks are prepared to put up a similar amount. Sir John Simon has not yet committed himself as to whether he will authorize £3,000,000 with an increase of £2,000,000 if required or do the whole £5,000,000 at once. It is apparently due to Rogers' persuasion that the original scheme for only £3,000,000 was revised upward. Leith-Ross hopes and trusts that £5,000,000 will be the sum particularly in view of the present flight from the dollar which makes even that amount look less formidable than it did and would prove insufficient if the movement continues.

In this general connection Leith-Ross stated that the British Government's advices from Tientsin from both official and unofficial sources indicate that with two exceptions the foreign banks in that area are not facilitating the flight or disposed "to play the Japanese game". The exceptions are the Mercantile Bank of India and the National City Bank of New York. Through the Bank of England steps are being taken respecting the Mercantile Bank. Leith-Ross stated that while he had no official request to make it would be helpful if we made an approach to the National City Bank which in recent days had been the largest Tientsin seller of Chinese dollars in the Shanghai exchange market and was also according to his information inclined to cooperate with the Japanese at least in North China. While emphasizing the informal character of his suggestions he equally emphasized the importance of the matter.

Leith-Ross went on to comment on the recent Japanese moves to enforce their exchange control in Northern China, indicating that he did not think their system a good one or likely to be successful. However, he feared that they might bring trade in that area to a standstill by withholding ship clearances unless shipping documents were produced indicating that goods were being exported in compliance with the Japanese regulations. He also commented on the action of the Japanese in turning the Concessions into "concentration camps" and said that in his opinion if Japan continued to take such an aggressive line, he felt that the British and American Governments should reconsider whether they should not supplement their assistance to China by taking retaliatory measures directly against Japan. In his opinion

⁹⁹ Sir John Simon.

the Japanese regard this as a possibility and decidedly fear it as an eventuality.

The approach to the French referred to in the Embassy's 268, February 24, 7 p. m., was made by Rogers in his capacity as an employee of the Chinese monetary authorities. Due to the difficulty between the British and French over the Czech gift and loan¹ the British have not directly approached the French but are urging the Chinese to press strongly for action and will give their support when the suitable moment occurs. But it is not expected that the French would become a party to this arrangement; the mechanical arrangements would be too difficult. Furthermore the French have not been informed of Monday's announcement since the British do not wish a leak to occur.

The Department may care to apprise the Treasury of the appropriate parts of this conversation which Butterworth had with Leith-Ross.

KENNEDY

611.939/99 : Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, March 7, 1939—5 p. m.

43. Your 147, March 1, 3 p. m., in regard to shipment of certain articles to Shanghai from areas under control of the Chinese Government. While obviously American consular officers cannot give the guarantees mentioned in the telegram under reference, the Department suggests that the Embassy and the Consulate General at Shanghai attempt, in consultation with the Chinese authorities and the merchants concerned, to arrive at a procedure that will meet the situation.

Repeated to Peiping and Shanghai.

HULL

893.51/6831 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, March 7, 1939—6 p. m.

[Received March 7—3:10 p. m.]

305. Supplementing the information in the Embassy's 294, March 3, 7 p. m., Leith-Ross stated that the flight from the Chinese dollar was continuing. The British Government's announcement has been delayed but will probably be made public tomorrow. Leith-Ross hopes that this action may check the flight and that it may be reversed after the difficult time of the Chinese New Year's settlement is over. His

¹ An agreement regarding financial assistance to Czechoslovakia was concluded in February between the British, French, and Czech Governments.

information is that in the main the flight money is not going abroad as such but is merely seeking safety pending a clarification of the situation. He is hopeful that the British banks may be persuaded to advance the necessary funds before the House of Commons' consent is obtained.

Leith-Ross also stated that a communication is being despatched to Washington ² outlining the position particularly with respect to North China and suggesting the possibility of further representations being made to the Japanese.

The Chinese have sent a note to the British Government indicating their inability to meet any sinking fund payments on their loans but expressing willingness to discuss interest payments. Leith-Ross said that he did not favor any arrangement on the basis of territory controlled because it would look like the first step in the dismemberment of China. He preferred an arrangement whereby China would pay one interest coupon; the Chinese were considering this suggestion but according to Rogers wished to avoid discrimination against other powers save Japan and such a procedure would require the agreement of other powers; furthermore they did not wish to lay out much foreign exchange.

KENNEDY

893.51/6834

The British Embassy to the Department of State

AIDE-MÉMOIRE

A concrete scheme has now been worked out as regards a Chinese currency stabilisation fund. Mr. Cyril Rogers of the Bank of England is consulting the Chinese Government and the documents should by now have been put into proper legal shape. They will consist of:

- (1) An agreement between the Hong Kong and Shanghai Bank, the Chartered Bank of India, Australia and China, the Bank of China and the Bank of Communications;
- (2) An agreement between the United Kingdom Treasury and the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China;
- (3) Undertakings to be given by the Chinese Government.

The inter-bank agreement will provide that the Bank of China and the Bank of Communications shall jointly subscribe five million pounds, the Hong Kong and Shanghai Bank three million pounds, and the Chartered Bank of India, Australia and China two million pounds to a stabilisation fund of ten million pounds to be used for exchange operations to prevent undue fluctuations in the sterling value

² *Infra.*

of the Chinese dollar. The fund will be managed by a committee in Hong Kong composed of two members representing the Chinese Government Banks, one representing the Hong Kong and Shanghai Bank, one the Chartered Bank of India, Australia and China and one nominated by the Chinese Government in agreement with the United Kingdom Treasury and with the approval of the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. It is intended that Mr. Cyril Rogers should be the Chinese Government nominee. The Chinese Government banks undertake to pay interest in sterling every six months to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China (the rate of interest is at present under discussion). The agreement is to remain in force for twelve months and may be renewed for further periods of six months provided the Chinese Government banks in agreement with the Chinese Government or the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China in agreement with the United Kingdom Treasury may at any time determine [*terminate?*] the agreement before due date. When the fund is wound up all assets are to be divided among the Banks in proportion to their original subscriptions.

The Treasury agreement provides that when the fund is wound up the Treasury will reimburse to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China any loss incurred by them and that the Treasury will guarantee payment of interest to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. The banks agree to supply full information to Mr. Rogers and to use their best endeavours to ensure the prudent and disinterested management of the fund. These two agreements would come into force as soon as the Treasury have received authority from Parliament. It will not be possible for legislation to be passed until just before Easter at the earliest (and if it cannot be passed before Easter it is not likely to be passed until the beginning of May owing to the Easter holidays).

The Chinese Government would undertake that during the life of the fund their economic and monetary policy will be designed to maintain the stability of the dollar in terms of sterling; that the Chinese Government and its agencies will buy and sell foreign exchange through one of the banks represented on the above-mentioned Committee; and that any foreign exchange acquired in excess of immediate commitments will be paid over to the fund so long as its sterling assets are less than ten million pounds. Further, the Chinese Government would undertake to purchase British banking shares with any Chinese dollar assets at the rate of the day on which the fund is wound up unless some other arrangement is agreed between His Majesty's Government and the Chinese Government.

An announcement of the foregoing arrangement with the Chinese Government will be made in the United Kingdom Parliament at 3:45 p. m. (Greenwich mean time) on the 8th March.

WASHINGTON, March 7, 1939.

611.939/109 : Telegram

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

SHANGHAI, March 8, 1939—5 p. m.

[Received March 8—10:41 a. m.]

190. Department's 43, March 7, 5 p. m., in regard to shipment of export produce to Shanghai from areas under control of Chinese Government. Procedure being followed here is for the American exporters to make out affidavits certifying that export produce will not be sold to Japanese and that it is the property of the American firm executing the affidavit. Affidavit is then sworn to and subscribed at this office.

Henningsen Produce Company, which has presented document of this nature to customs authorities at Ningpo, states that it has proved effective and that their cargo has been passed and has arrived safely in Shanghai.

Repeated to Chungking and Peiping.

GAUSS

793.94/14922

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] March 8, 1939.

In the conducting of our relations with countries of the Far East, and especially with Japan, we are making our principal objective that of discouraging interference by Japan with American interests in China. In the field of action, we are constantly making representations to the Japanese authorities. In the course of so doing, we are in effect constantly pointing out to the Japanese how they might, while going ahead with their aggression against an attempted conquest of China, avoid encountering substantial opposition by and from the United States.

Query: Is it more important to this country that interference with American interests in China be temporarily prevented than that Japan's attempted conquest of China be not consummated? Are the injuries which the Japanese are doing or might do to American interests in China of more consequence to the United States than the dis-

regard by Japan of her treaty pledges to this country and the violation by Japan of various and sundry basic principles in which this country believes? Is Japan's violation of her pledges with regard to the open door a greater offense against this country than Japan's violation of her pledge not to resort to war in pursuit of national policy?

Suppose that, for the time being, Japan listened to our remonstrances and took our advice that she refrain from interference with American interests in China; and suppose that Japan were to succeed in conquering China; would we not be confronted with this situation: first, Japan would have achieved her conquest by and through violation of certain of her pledges to us and violence to our principles, and, second, Japan would, in conformity with her concept of the "new order in Asia", thereafter largely destroy such of our interests in China as had up to that time survived?

Ought we not, in the field of action, broaden the scope of and perhaps shift the emphasis of our policy? Ought we not concern ourselves more about the problem of seeing to it that Japan does not conquer China than about discouraging interference by Japan with American interests in China?

Must we not, toward safeguarding both our interests in China and our interests in general, assert ourselves toward ensuring the continuance of Chinese sovereignty in China (as distinguished from acquisition by Japan of a substantive control over China and the Chinese)?

It has been a traditional policy of this country to contend for and contribute to the survival of China as an independent state ("integrity of China"); this country's policy in that respect has been coupled with—in fact was conceived as a supplement to and a means toward making good—our policy of contending for and giving support to the principle of equality of commercial opportunity ("open door") in and with regard to China. If we want equality of opportunity in China, we must have a China.

Both the principle and practice of the open door and the principle and practice of non-aggression (order with and under law) are at stake in the Japanese-Chinese conflict. It is not sufficient for us to contend for the open door. If China is conquered, we will have no open door.

It is easier to give assistance to China than to place obstacles directly in the way of Japan.

We have already given a certain amount of assistance to China. Ought we not be making it a definite part of our policy to add to the measure and the methods of assistance by this country to China?

The British Government is at this moment taking a new step toward assisting China (currency loan). This Government has given the British Government an assurance that we would study possibilities

of action here with a hope that we would be able to take some new and parallel step in the same direction. Is not the moment at hand when, if at all possible, we should be taking some such step?

STANLEY K. HORNBECK

893.51/6831 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Kennedy)*

WASHINGTON, March 9, 1939—6 p. m.

173. Your 305, March 7, 6 p. m. In regard to the question of further representations to the Japanese on the subject of exchange control and trade restrictions in north China, the Department on March 4 instructed the American Ambassador at Tokyo³ to approach the Japanese Foreign Office in regard to the matter and also suggested that he consult his British and French colleagues with the thought that they might wish to take similar but separate action. On March 9 the Department telegraphed the American Ambassador at Tokyo⁴ suggesting additional argumentation for use in his approach to the Japanese authorities.⁵

HULL

893.51/6836 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 10, 1939—3 p. m.

[Received March 10—1:45 p. m.]

165. News of the successful conclusion in London of the Chinese currency credits scheme was received with unrestrained joy and gratification in Chungking. Dr. H. H. Kung issued a statement expressing gratification and appreciation for the granting of the credits which he said would prove a very helpful addition to the facilities for continued maintenance of the stability of the Chinese dollar. Pointing out that the granting of these credits is further evidence of Great Britain's interest in the financial and economic situation of China, Dr. Kung declared that it is an act of far-sighted statesmanship which is clearly in the mutual interests of both countries.

[Here follows a report of press comment.]

PECK

³ See telegram No. 52, March 4, 3 p. m., p. 371.

⁴ See telegram No. 55, March 9, 8 p. m., p. 375.

⁵ For Ambassador Grew's note to the Japanese Minister for Foreign Affairs, dated March 11, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 831.

893.51/6837: Telegram

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

TOKYO, March 11, 1939—3 p. m.
[Received March 11—6: 55 a. m.]

132. Our 130, March 10, 8 p. m.,⁶ reference British currency credit to China.

1. At a meeting of the Budget Committee of the Lower House yesterday, the Minister for Foreign Affairs, in reply to a question, gave a report on the circumstances of the conversation which took place on March 8 between Craigie⁷ and the Vice Minister:

“When the Vice Minister asked the British Ambassador for an explanation, he said to the latter that the consequences in setting up the stabilization fund, even if such consequences might be indirect, would operate to be helpful to Chiang Kai Shek and would therefore have substantial effect on Anglo-Japanese relations. In view of that statement the Japanese Government does not propose to make a protest immediately, but it intends to follow closely for the time being the operation of the stabilization fund. From the British point of view, it can be argued that the establishment of this fund is calculated to safeguard British interests, but it also must be admitted that the fund will bring about results favorable and helpful to Chiang Kai Shek. Even in respect of such results, the question of degree must be considered. Consequently, the Japanese Government must carefully consider whether or not it should protest the setting up of a fund to support Chinese currency on the ground that such action constitutes an extraordinary act of unfriendliness on the part of Great Britain against Japan.”

2. The Foreign Minister, replying to the suggestion by a member that Japan should resort to specific diplomatic means to dissociate the United States from Great Britain, said: “It is intended to make every effort to follow a policy of friendship toward the United States.”

Cipher text by air mailed Shanghai for repetition to Chungking.
GREW

893.51/6840: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 14, 1939—2 p. m.
[Received March 14—10: 15 a. m.]

178. In discussing with an officer of the Embassy the recent grant of British credits to China, Dr. Arthur N. Young⁸ remarked that the primary aim of the scheme is of course to stabilize the Chinese national currency. He added that the authorities concerned hope

⁶ Not printed.

⁷ Sir Robert Craigie, British Ambassador in Japan.

⁸ American adviser to the Chinese Ministry of Finance.

and anticipate however that it will not be necessary to dip into the fund in order to support the currency but rather that it will be utilized for exchange stabilization operations in such a way as to return a profit. He said he thought the scheme would be successful in practice and commented that the knowledge that such a fund was existent would probably act as a deterrent to attempted speculative or political manipulations of Chinese currency.

Young professed to believe that the action of London in guaranteeing the credit marked a vital change in British policy in the Far East. He interpreted it as a realization on the part of Britain that to support the Chinese Government is the surest means in the present circumstances of preserving British interests in the Far East.

The informant also stated in strict confidence that negotiations are now being conducted in Paris for the granting of French credits for the purchase of commodities, presumably of a commercial character. He thought that the chances for the consummation of this latter project were bright but observed that the amount of the credit would not be so substantial as the recent American and British grants.

Repeated to Peiping, Peiping mail code text to Tokyo.

PECK

793.94/14877

*Generalissimo Chiang Kai-shek to President Roosevelt*⁹

CHUNGKING, March 25, 1939.

DEAR PRESIDENT ROOSEVELT: In the middle of last December I asked your Ambassador Mr. Nelson T. Johnson, who was returning to Washington on leave, to bring to you a short letter of mine¹⁰ and to present to you my views concerning the Far Eastern situation.¹¹ During the three and half months which have since elapsed, I have been much impressed by the increasing interest and growing concern with which the Government of the United States has followed the developments in this country. At the same time there have been taking place in other parts of the world momentous events which together with Japanese aggression in China have brought about a noticeable change of public opinion in the United States and which have thus given a powerful impetus to the policy you have been pursuing in the interests of liberty and democracy.

The United States was the first country which rejected, in an official communication, Japan's preposterous claim to establish the so-called "New Order" in East Asia. The American Government rightly pointed out that many of the changes in this part of the world had

⁹ Handed to the Secretary of State by the Chinese Ambassador and transmitted to President Roosevelt on March 29.

¹⁰ Dated December 11, 1938, not printed.

¹¹ The conversation between Mr. Johnson and President Roosevelt took place January 22.

been brought about by the action of Japan herself. It is most reassuring to hear the American declaration that no Power has the right to constitute itself the repository of authority and the agent of destiny in regard to the areas not under its sovereignty.¹² Emphatic re-enunciation by the United States of the principle of inviolability of treaties and rights and obligations which rest upon treaty provisions served indeed as a serious warning to the aggressor. I am pleased to note that the pronouncements thus clearly and opportunely made by the Government of the United States have brought forth representations of a similar nature to Japan from the Governments equally concerned.

I have been following with immense interest and pleasure your public utterances in which you so often and so consistently denounced acts of aggression and advocated defence of democracy and international good faith. I was especially moved by your eloquent speech made early in January before the Congress¹³ in which you said that at the very least the United States could and should avoid any action or any lack of action which would encourage, assist or upbuild the aggressor. As was truthfully pointed out by you, certain laws originally designed to meet certain state of affairs existent between two states may, contrary to the wishes of their framer, operate unevenly and unfairly and may actually give aid to the aggressor and deny it to the victim of aggression. I trust that at your initiative and under your guidance, efforts will be made to distinguish between the party who attacked and the party who defended and thus remove the possibility of unintentionally giving advantageous treatment to the aggressor.

I am happy to recall that the discussions between American financiers and Chinese representatives which, as you assured me in November of last year,¹⁴ were receiving your most careful and sympathetic consideration, resulted in the conclusion on February 8, 1939, of an agreement extending to the Universal Trading Corporation commercial credits to the total amount of twenty-five million dollars. Such financial help coming as it does at a time when Japan is mapping out her plan of subjecting China to her economic domination after military conquest has morally produced the most favorable effect everywhere, besides great material benefit accruing to China. It has increased the courage and confidence of our people, it has caused other countries to give us similar aid, and, what is more, it has brought home to Japan the plain fact that the United States will never abandon China as a co-member of the family of nations. I take this op-

¹² See telegram No. 59, April 28, 1934, 7 p. m., to the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 231.

¹³ Message of January 4, *Congressional Record*, vol. 84, pt. 1, p. 74.

¹⁴ Letter of November 10, 1938, *Foreign Relations, 1938*, vol. III, p. 376.

portunity to acknowledge the debt of gratitude we owe to you and to the American people in this hour of China's national crisis.

International lawlessness is no longer confined to East Asia. Unchecked and uncombated, it has spread like a contagious disease which is devouring its victims with apparent impunity. One act of aggression encourages and breeds another. Successful overthrow of law and order in one part of the world inevitably leads to an attempt of a similar coup in another. Had Japan been effectively checked by the concerted action of the Powers during her invasion of Manchuria in 1931, subsequent events not only in China, but in other parts of the world would have taken a different course, and humanity would not have to live as it does now so much in fear, agony and despair.

Japan's continued military aggression in China, coupled with the developments in Europe pregnant with the immediate danger of a world catastrophe, seems to have provided a new background for the trend of thought of a great number of American people with the result that you will be able to proceed with greater effect and success. All peace-loving nations are now fervently praying that the United States may play a leading role in re-establishing international peace and order and saving world civilization from total destruction. And it is the fondest wish of China that the United States in undertaking this task will commence by bringing Japan to an early and full realization of the wisdom and necessity of abandoning her adventure in China; for when skies in the Far East are clear, dark clouds that are now hovering over Europe will also disappear. Thus whether international relations will yet return to normal or are doomed to be permanently characterized by brute force chiefly depends upon the noble efforts of the United States and of you, its great and able leader.

CHIANG KAI-SHEK

793.94/14835 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 28, 1939—9 a. m.

[Received 10:15 a. m.]

215. In the course of a call upon a responsible Chinese official¹⁵ on March 27, I asked regarding the present attitude of Germany toward the Sino-Japanese conflict and he said that he felt the German Minister for Foreign Affairs¹⁶ was extremely pro-Japanese but that the Minister of Economics¹⁷ believed that Germany stood more to gain through relations direct with China than through a victorious Japan. He commented that, of course, this was true because even if Japan obtained any advantage from the war this would not be shared with

¹⁵ The Minister of Economic Affairs, Wong Wen-hao.

¹⁶ Joachim von Ribbentrop.

¹⁷ Walther Funk.

any other country. I inquired about the rumored negotiations for a renewal of the German-Chinese barter agreement and he said the German Minister of Economics had an emissary in Chungking named Voigt, formerly a businessman in Shanghai, who was pressing more for the carrying out of the terms of the barter agreement negotiated about 3 years ago than for its removal [*renewal?*] on different terms.

Since hostilities began China has not been carrying out its terms except that under a supplement negotiated a year after the date of signing Germany had granted a cash credit of 100,000,000 marks for the purchase of war supplies and China had about exhausted this credit. He said that although the Chinese Minister of Finance is rather inclined to carry out the original agreement, General Chiang views Germany with disfavor because of Hitler's action in ordering out the German military advisers and particularly because a time limit was set for their departure under threat of confiscation of their property and deprivation of citizenship which Chiang regarded as humiliating to himself. The Minister said that since the Japanese were making it increasingly difficult to export the Chinese products desired by Germany and to import manufactured goods the barter arrangement was decreasing in value to China even though the Germans were offering as an added inducement to accept Chinese raw materials in payment for war equipment.

He explained that the Germans refused to supply completely manufactured military equipment but only such as was brought to a stage where its assembly could be completed in China. I asked whether any threats were being made and the informant replied that the argument was being used that the assembly [*Government?*] must do something to support that faction in Germany which preferred close relations with China rather than with Japan or automatically see the dominance of a pro-Japanese party. Recalling the negotiation of the original barter arrangement before the outbreak of hostilities, informant said that even then the Germans had stated frankly that Germany could not be satisfied with current supplies of raw materials but must store up quantities in advance in preparation for war. I inferred that there is little prospect of an early agreement with the German representative. Repeated to Peiping, Shanghai. Peiping send by mail to Tokyo.

PECK

893.6359 Wolfram Ore/56 : Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, April 8, 1939—3 p. m.

65. Reference Shanghai's despatch No. 2031 of March 4, 1939, and enclosures thereto¹⁸ which indicate that the Chinese Government has

¹⁸ None printed.

granted to the Peiping Syndicate exclusive export or selling rights for Chinese wolfram (tungsten ore).

The Department desires that you make inquiries in regard to the matter and, if the reports are found in substance to be correct, that you, unless you perceive substantial objection, make appropriate representations to the Chinese Government based on the Department's instruction No. 1745 of September 4, 1935,¹⁹ and the final paragraph of the Department's instruction No. 182 of May 20, 1936.²⁰ The Department suggests that, in addition to making clear our position with regard to monopolies as set forth in the instructions cited above, you point out that Chinese wolfram is a product of special interest to this country, express concern that the grant to a foreign company of monopolistic rights with regard to the export and sale of wolfram might prove prejudicial to American interest in the product, and request that the Chinese Government carefully avoid any action that might have such an effect.

Repeated to Shanghai, Peiping, and Hong Kong.

Hong Kong please repeat its 78, March 3, 1 p. m.,²¹ to Chungking, Peiping and Shanghai.

HULL

793.94/14877

*President Roosevelt to Generalissimo Chiang Kai-shek*²²

WASHINGTON, April 8, 1939.

MY DEAR GENERAL CHIANG: I greatly appreciate having your letter of March 25, 1939, which the Chinese Ambassador here, Dr. Hu Shih, delivered to the Secretary of State, Mr. Hull, for me; and I have read with interest and care your comments upon recent evidences of the attitude and policy of the Governments of the United States toward developments in the Far East and in the world at large. I have also noted attentively the views you express on the situation in the Far East in its relation to world events.

I recall that, in an address given by you at Chungking in December last,²³ you declared that "Internationally, our object is to support righteousness and justice, restore the prestige of treaties, and re-establish peace and order", and you expressed confidence that "The

¹⁹ *Foreign Relations*, 1935, vol. III, p. 786.

²⁰ Not printed; in the final paragraph the Department instructed the Embassy that it "should continue to oppose actively not only monopoly agreements which accord to foreign interests an exclusive or preferential trade position but also unreasonable restraints on international trade". (893.602/45)

²¹ Not printed.

²² Original forwarded with instruction No. 159, April 17, to the Chargé in China for transmittal to General Chiang.

²³ See telegram No. 622, December 27, 1938, 10 a. m., from the Chargé in China, *Foreign Relations*, 1938, vol. III, p. 436.

force of world justice will rise, and men of goodwill ultimately cooperate in the interests of rectitude". Such also are the objectives of this Government and I am happy to join in your expression of confidence with regard to the future.

Very sincerely yours,

FRANKLIN D. ROOSEVELT

893.6359 Wolfram Ore/58 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 11, 1939—3 p. m.

[Received April 11—11:40 a. m.]

253. Department's 65, April 8, 3 p. m. This morning I had an opportunity to ask Minister of Finance Kung about the reported wolfram export monopoly and he said that it was true that the Chinese Government had appointed the Peiping Syndicate exclusive agent for the sale of this ore in foreign markets. He explained that there was an unfortunate prospect that Kiangsi Province where tungsten mines principally are found would fall into Japanese military occupation and that the arrangement with syndicate carried with it a sort of guarantee of "protection" from the British Government. He said that if American Government had been willing to afford the same protection the Chinese Government would have been equally willing to make the arrangement with an American firm and he implied that similar arrangements in regard to other products were available but he was not specific.

It was clear that what he alleged about British "protection" was intended as a defense in advance against criticism of the granting of monopolistic privileges. I inquired whether the agreement with the syndicate meant that American purchasers would be obliged to deal only with that firm and Kung replied that the Government had exclusive control of tungsten sales and that purchases would have to be made either from the Government or the syndicate; even if the Government were the seller it would have to pay the syndicate its commission nevertheless.

In view of Kung's statement I venture to suggest that a formal protest through the Foreign Office would lead merely to a specious and evasive rejoinder or to a continuation of the present deadlock in our argument regarding government control of business in certain commodities. On the contrary if we desire to come to some private arrangement to ensure a supply [of] tungsten it would seem advisable to continue the discussion with Kung either direct or through K. P. Chen²⁴ who presumably is in New York. In the premises does the

²⁴ Adviser to the Chinese Ministry of Finance.

Department wish to make any change in its instruction regarding the wording of the protest?

Not repeated.

PECK

893.51/6868 : Telegram

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

PARIS, April 18, 1939—2 p. m.

[Received April 18—12:55 p. m.]

766. The Chinese Ambassador²⁵ gave me this morning a copy of an *aide-mémoire* which he had presented to the French Government on April 13th requesting the French Government (1) to contribute to the Chinese currency stabilization fund; (2) to grant a guarantee of credits to facilitate the financing of railway and industrial developments in Southwestern China; (3) to reduce the transit duties on supplies of matériel for China through Indo-China.

I shall forward a copy of this *aide-mémoire* by pouch tomorrow.²⁶

BULLITT

893.51/6869 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 19, 1939—10 a. m.

[Received April 20—5:30 a. m.]

275. McHugh²⁷ reports that Rogers, who returned from London while he was in Hong Kong recently, informed him that after Sir John Simon had announced the intention of the British Government to support Chinese currency and before the bill to this effect had been introduced in Parliament, a report had reached London direct from Chungking that the Bank of China and T. V. Soong²⁸ were being charged here with holding out reserves of foreign exchange, sabotaging the currency and pursuing a policy contrary to that of the Central Government. In order to appease the subsequent anger in some circles in London at this apparent split in the Chinese ranks, Rogers had immediately cabled to Young to obtain a specific denial from Kung of this report and an assurance through the Chinese Ambassador of Chinese solidarity and appreciation of the forthcoming British assistance. This was done.

[2.?] Rogers confirmed, however, that antagonism between Kung and Soong is stronger than ever and that both are trying to claim the

²⁵ V. K. Wellington Koo.

²⁶ Not printed. See also telegram No. 770, April 18, 6 p. m., from the Ambassador in France, p. 528.

²⁷ Maj. James M. McHugh, U. S. M. C., Assistant Naval Attaché in China.

²⁸ Chairman of the Board of Directors of the Bank of China.

credit for the British transaction. He stated that Clark Kerr²⁹ had inadvertently pinned the credit on Soong in November by forwarding to London the suggestion for a joint stabilization fund as coming from Soong although Rogers himself had earlier proposed the idea to both Kung and Soong. Rogers said he had purposely brought Tsuyee Pei³⁰ to Chungking in January with Soong's permission to show Kung the balance sheet and complete position of the Bank of China in order to forestall criticism of the bank. He blamed Kung therefore for permitting the report against the Bank of China to reach London.

3. He did not, however, in relating all that had transpired in London in obtaining the support of Sir John Simon or of putting the bill through the House indicate that the questions of Soong replacing Kung, of British financial advisers being substituted for Americans in China or of abolishing the Central Bank had ever been suggested in London. The continuance of the Central Bank is in fact essential to the maintenance of the present currency system. He did assert that the charge of any selfish manipulations by the Bank of China was ridiculous in view of the fact that it and the Bank of Communications had had to borrow their five million pounds contribution to the fund. Their ability to borrow at the low rate of $2\frac{3}{4}\%$ and without security proved belief in their integrity.

4. Another point of ill feeling between Soong and Kung is the fact that the latter pledged the Bank of China in the recent purchase of American planes without reference to the former.

5. McHugh requests that substance of the foregoing be made available to the Navy Department. Peiping please similarly convey to Naval Attaché and Shanghai to the Commander-in-Chief.³¹

PECK

893.6359 Wolfram Ore/58 : Telegram

The Secretary of State to the Chargé in China (Peck)

WASHINGTON, April 25, 1939—7 p. m.

78. Your 253, April 11, 3 p. m., in regard to tungsten ore. Although we appreciate the force of your suggestions with regard to the manner of handling this matter, it is our opinion that an approach along the lines set forth in the Department's 65, April 8, 3 p. m., should be made. Such an approach would serve the purpose of placing on record with the Chinese Government our position with regard to this matter and of emphasizing our interest, which is especially important,

²⁹ Sir Archibald Clark Kerr, British Ambassador in China.

³⁰ Assistant General Manager of the Bank of China.

³¹ Adm. Harry E. Yarnell, U. S. Asiatic Fleet.

in the commodity under reference and our solicitude that American companies might as a result of action by the Chinese Government experience difficulty in obtaining supplies.

HULL

893.51/6908

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] May 16, 1939.

In the course of a conversation which I had recently with the Chinese Ambassador, Dr. Hu gave me an account of the situation which had prevailed at Chungking after the fall of Hankow and the capture of Canton, and just preceding the announcement of the Export-Import credit of \$25,000,000, and in the giving of the account indicated that the extending of that credit had had a tremendous effect on Chinese morale and policy. He said that there had been a head-on conflict within the Chinese Government over the subject of continuing resistance or making peace on the best terms obtainable, which terms would have been highly unfavorable to China; and he indicated that announcement of the credit had greatly helped Chiang Kai-shek to gain the decision for continued and intensified resistance.

STANLEY K. HORNBECK

893.51/6899

*Memorandum by Mr. Joseph M. Jones of the Division of Far Eastern
Affairs*

[WASHINGTON,] May 19, 1939.

An examination of the files discloses that the British Government has extended two types of financial assistance to China, one consisting of a contribution to a fund for the stabilization of the Chinese currency and the other consisting of commercial credits guaranteed by the Exports Credit Guarantee Department.

With reference to the contribution to a fund for the stabilization of Chinese currency, the British Government on March 8, 1939, announced that it had entered into an agreement with the Chinese Government to establish a Chinese currency stabilization fund and for that purpose had agreed to advance £5,000,000. (See Tokyo's telegram No. 122, March 8, 3 p. m.,³² and the British Embassy's *aide-mémoire* of March 7, 1939.)

³² Not printed.

In regard to the guaranty of commercial credits, an *aide-mémoire* of the British Embassy over date January 6, 1939, contained the statement that "The United States Government are aware that His Majesty's Government have already allocated to China about £500,000 of credits which will become available when the Export Guarantee Bill is passed". According to a report from the Assistant Commercial Attaché in London, the Export Guarantees Act 1939 went into effect on February 28, 1939.

The Commercial Attaché at Shanghai reported in a telegram of date April 14, 1939,³³ that according to the press the British Exports Credit Guarantee Department had agreed to advance £3,000,000 to China in addition to the half million pounds previously advanced. There is no further indication in the files that this additional credit was in fact made available to the Chinese.

In a report entitled "The Exports Credit Guarantee Department" of date April 24, 1939,³³ the Assistant Commercial Attaché in London stated that "prior to the passage of this act (the Export Guarantees Act, 1939) the only medium-term guarantees of any importance given in connection with China have been for trucks and lorries, intended mainly for use on the new line of communication from Burma". It would appear then that certain credits to China were guaranteed prior to the passage of the Export Guarantees Act of 1939, but in as much as the Export Guarantees Act in effect prior to that time did not provide for credit guarantees "in the national interest" it is probable that these were more of the nature of ordinary commercial credits.

It appears then that the British Government has definitely lent financial assistance to China to the extent of £5,500,000. An additional credit of £3,000,000 may have been extended by the British Exports Credit Guarantee Department but there is no authoritative information in the files which would confirm this extension.

893.6359 Wolfram Ore/62

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

No. 217

CHUNGKING, May 27, 1939.

[Received June 13.]

Subject: Sale of Wolfram produced in China.

SIR: I have the honor to refer to my despatch No. 196, of April 29, 1939,³⁴ on the subject "Protest against granting to a foreign firm of an exclusive sales agency for Chinese wolfram".

There is enclosed a translation of a reply from the Minister for Foreign Affairs, dated May 18, 1939,³⁴ to the note of protest of April

³³ Not found in Department files.

³⁴ Not printed.

28, 1939, reported in that despatch. Salient information in the reply includes the following: A wolfram export trade agency contract was concluded in November, 1938, by the Chinese National Resources Commission with the Peking Syndicate, a British firm, constituting the Syndicate the Commission's agent for the export of wolfram from the Provinces of Kiangsi, Hunan and Kwangtung and for the sale of wolfram on behalf of the Commission; the Syndicate does not itself make purchases nor engage in speculation in wolfram for its own gain; the Commission retains authority to set the prices, quantities and selling methods involved in sales of wolfram; the Commission also reserves the right to purchase and ship wolfram in exchange for other products and to use wolfram as security for loans; there is, therefore, no discrimination between nations desiring to purchase wolfram, except in the case of the nation now invading China, sales to which are to be stopped; otherwise sales will be conducted in accordance with the terms of existing treaties; for more than three years the sale of Chinese wolfram has been under the control of the Chinese Government and in that time a Wolfram Control Administration and a Foreign Trade Bureau have been established and are handling internal and foreign trade in this commodity.

I venture to express the opinion that in the circumstances now existing, when China is mobilizing the entire human, natural and economic resources of the nation to resist invasion on a stupendous scale, it would be unreasonable and probably futile to insist on withdrawal of government control of the wolfram industry. At the same time it would be well to face the probability that Government control of basic industries in China has come to stay, the Chinese Government being of the opinion that such control is essential to the economic development of the country and having adopted it as a national policy.

Respectfully yours,

For the Ambassador:
WILLYS R. PECK
Counselor of Embassy

893.51/6931

Memorandum of Conversation, by the Chief of the Division of Controls (Green)

[WASHINGTON,] May 29, 1939.

In the course of a conversation on another subject which Mr. Hornbeck and I had with the Chinese Ambassador in Mr. Hornbeck's office today, the Ambassador spoke of the Secretary's recent letter to the Chairmen of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs³⁵ in regard to neutrality legis-

³⁵ Dated May 27, Department of State, *Peace and War: United States Foreign Policy, 1931-1941*, Document No. 130, p. 461.

lation, a subject to which he had referred at the beginning of our conversation. He mentioned particularly the proposed provisions of neutrality legislation relating to loans and credits, saying that he had experienced and would experience great difficulty in explaining to his Government and to his compatriots the attitude of the American Government and American people toward loans and credits to belligerents. He pointed out that the recent \$25,000,000 credit granted by the Export-Import Bank contained restrictions as to the use to which that credit could be put. He said that his Government had rigorously refrained from using any of that credit for the purchase of arms, ammunition, or implements of war. However, as the Chinese civil reserve was now almost depleted, his Government felt an urgent necessity for a further credit or for a loan which could be used for the purchase of arms, particularly airplanes. He said that he hoped that means could be found to enable his Government to obtain such a credit or such a loan in this country but that he had brought the matter up today merely in order that we might give the question consideration and that he did not expect any immediate reply.

JOSEPH C. GREEN

893.6359 Wolfram Ore/66

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

No. 221

CHUNGKING, May 29, 1939.

[Received July 24.]

SIR: I have the honor to refer to my despatch No. 217, May 27, 1939, on the subject "Sale of Wolfram produced in China", and to enclose in this relation a translation of a third-person note from the Ministry of Foreign Affairs, dated May 24, 1939, together with copies of the enclosures thereto.³⁶ These enclosures, constituting an exchange of letters between the Chairman of the National Resources Commission and the General Manager of the Peking Syndicate Limited, confirm the existence of a mutual understanding that the sale of wolfram ore shall be conducted in conformity with the various treaties and agreements—particularly the Nine Power Treaty—and also confirm that there shall be no discrimination with regard to countries other than those engaged in hostilities with China in relation to transactions in the wolfram ore trade.

Respectfully yours,

For the Ambassador:
WILLYS R. PECK
Counselor of Embassy

³⁶ Enclosures not printed.

893.51/6905 : Telegram

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

PARIS, June 6, 1939—5 p. m.

[Received June 6—3 p. m.]

1076. Personal for the Secretary. When I talked with Leger³⁷ this morning I asked him if the negotiations of the French Government with the Chinese Government for a loan to support the Chinese currency and for a credit for purchase of railroad equipment and factory equipment in France had been brought to a successful conclusion.

Leger replied that Bonnet³⁸ had been opposing the conclusion of these agreements. Bonnet seems to be using at the present time a conversation which Ambassador Saint-Quentin had had with you as the basis for his argument that France should not give China at this time either the currency loan or the credit.

Saint-Quentin's report of his conversation with you according to Leger indicated that the Government of the United States believed that France should do nothing at the present time which might incur the displeasure of the Japanese Government because the Government of the United States believed that by following a policy of appeasement with the Japanese Government it might be possible to detach Japan from its relations with Germany and Italy.

I said to Leger that I had no information whatsoever with regard to your conversation with Saint-Quentin; but I believed that the French Ambassador must have misinterpreted your thoughts.

I called Leger's attention to the fact that Bonnet had said to me on July 6th last and on August 5 last (see my telegrams No. 1077, July 7, noon,³⁹ and No. 1228, August 5, 11 p. m.⁴⁰) that if the American Government should consent to give a loan to China the British and French Governments would follow suit. I added that I felt certain that you could not have intended to convey the idea that the Government of the United States believed that France should not now grant the loan and credit which had been promised to the Chinese Government.

I am sending you this information in the form of a personal telegram because I feel that you might possibly wish to send for Saint-Quentin and say to him that our Government far from opposing a loan and credit from France to China would welcome the granting of

³⁷ A. Léger, Secretary General of the French Foreign Office.

³⁸ Georges Bonnet, French Minister for Foreign Affairs.

³⁹ *Foreign Relations*, 1938, vol. III, p. 534.

⁴⁰ Not printed.

such assistance by the French Government and that we had not forgotten the statements in this regard of Bonnet to me on July 6 and 17, 1938.

BULLITT

893.51/6923

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

No. 2857

LONDON, June 14, 1939.

[Received June 23.]

SIR: I have the honor to refer to instruction No. 753 of May 27, 1939,⁴¹ enclosing for comment a copy of a Departmental memorandum entitled "British Financial Assistance to China".⁴²

As reported in paragraph 6 of the Embassy's 14 of January 4, 6 p. m., it was the intention of the British Government, according to Sir Frederick Leith-Ross, to earmark a quarter of the £10,000,000 "political" export credit for China and, according to the British Treasury, this still remains the intention of the British Government.

On December 19, 1938 an inspired article by its diplomatic correspondent appeared in *The Times* stating that "the Government hope soon to put about £500,000 to the credit of the Chinese Government, with the prospect of other sums to follow." To date only £140,000 of this export credit has been drawn on by the Chinese Government in connection with an order for motor trucks amounting in all to £220,000. According to the British Treasury, the Chinese Government has shown no disposition to make use of the remainder.

This export credit for trucks, as mentioned in the Embassy's 1310, November 12, 3 p. m.,⁴¹ was designed originally to fall within the provisions of the non-political Export Credit Guarantees scheme but the announcement of its conclusion was hastened by the publication of the \$25,000,000 American credit. The British Government had been under fire from a number of quarters which held the view that it had not been sufficiently prompt and generous in rendering aid to China. The announcement of the £500,000 credit was no doubt designed to prevent further criticism when Parliament reconvened after its Christmas recess. However, the haste with which this matter was dealt with hindered the arranging of satisfactory security, necessary in the case of ordinary export credits. Although the "political" Export Guarantees Bill did not become law until February 28, 1939, the truck credit is, I understand, now being retroactively allocated to that account.

⁴¹ Not printed.

⁴² See memorandum by Mr. Joseph M. Jones of the Division of Far Eastern Affairs, May 19, p. 667.

As indicated in previous reports, the British Treasury has often complained of the indefiniteness and the inefficiency of the Chinese in formulating propositions. It now states that a draft scheme which would necessitate "political" export credits totalling about £1,200,000 was handed to the Chinese over a month ago and to date no reply has been received. The material concerned is mainly industrial machinery having to do with the production of instruments of war. The British Treasury is inclined to attribute a share in this delay to Mr. P. W. Kuo who, although he enjoys no official status in London, is Dr. Kung's representative here. As indicated in the Embassy's 840, August 30, 7 p. m. (1938),⁴³ he has actively participated in discussions with the Export Credit Guarantees Department. . . .

In supplying the above information, the British Treasury asked in turn for information as to how far the Chinese have drawn upon the \$25,000,000 American credit.

Beside Chinese propensities in conducting business negotiations, there are also British inhibitions.

One arises out of the character and training of the Treasury and Export Credit Guarantees Department officials who are for the most part technicians not accustomed to taking a large political view of affairs. Furthermore, they have been assiduously trained in a tight-fisted school. Therefore, in arranging any new credits for China these officials wish to obtain from the Chinese similar security to that given by the Chinese to the United States in the matter of the \$25,000,000 credit. It is even believed here that the Bank of China guarantee given to the United States was obtained without the free concurrence of the Bank of China, and my impression is that Mr. Rogers, for one, would not like to see the Bank of China extend such guarantees ad libitum. Accordingly there has been some talk of using the Yunnan tin production as a substitute security, the foreign exchange for which now remains in the hands of the Provincial Government. No doubt the Central Government has been urged to attempt to obtain control of this source of foreign exchange, which is said to produce some £2,000,000 per year.

Secondly, those in charge of the management of the financial resources of this country, as a result of the drastic change of British policy which occurred after March 15th,⁴⁴ are now beset with appeals for financial assistance. All of Great Britain's new-found allies—Poland, Turkey, Rumania and Greece—as well as such other countries as Yugoslavia and Bulgaria are asking for money, and yet more money. At the same time the British Government has undertaken an armament programme for the current financial year which will entail

⁴³ *Foreign Relations*, 1938, vol. III, p. 551.

⁴⁴ Date of the seizure of Czechoslovakia by Germany.

borrowing on its own behalf to the extent of £380,000,000. The British Treasury is, therefore, facing a serious problem of apportioning available resources.

Furthermore there is, as the Department is aware, a general disposition in high official quarters in Great Britain to look to the United States as the appropriate Power to bear the main burden in the Far East. With extensive and precarious European and Mediterranean commitments, the British Government is acutely aware of its vulnerability in the Far East.

Incidentally, current developments in Tientsin may well precipitate a re-inspection of the position analyzed in the British Embassy's *aide-mémoire* of January 25, 1939.⁴⁶ Asked in the House of Commons to-day whether "the Prime Minister will immediately inform the Japanese Government that, unless the threatened Japanese blockade of the British Concession at Tientsin⁴⁷ is discontinued, Japan will at once be denied all use of the ports of Hong Kong, Singapore and Penang", the Parliamentary Under Secretary for Foreign Affairs replied: "The question of what measures will be appropriate in regard to the Japanese blockade of the British Concession at Tientsin is at present under examination, and must depend in some degree upon the nature of the action taken by the Japanese." Asked, further, "Are His Majesty's Government working in close touch with the French and American Governments in connection with this matter?" he replied: "The honorable member may rest assured there is close contact with both these Governments."

Respectfully yours,

For the Ambassador:
HERSCHEL V. JOHNSON
Counselor of Embassy

893.51/6924

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

No. 2867

LONDON, June 15, 1939.

[Received June 23.]

SIR: I have the honor to refer to despatch No. 2352 of March 27, 1939,⁴⁸ and previous correspondence regarding the China Currency Stabilization Fund and to report that, according to Mr. Hall-Patch of the British Treasury, the French Embassy notified the British Government on June 12 that the French Government was prepared to enter the China Currency Stabilization Fund with a contribution of 200 million francs. The French Government has in turn asked

⁴⁶ *Ante*, p. 490.

⁴⁷ See vol. iv, pp. 163 ff.

⁴⁸ Not printed.

for representation on the Management Committee and other participating privileges. In this connection Mr. Hall-Patch stated that the French could not believe that there was not some hidden benefit which was accruing to Great Britain through its contribution to the Stabilization Fund and that would not, therefore, automatically be obtained by them. He added that the British Treasury had had some difficulty in persuading the French Embassy that the purpose of the China Currency Stabilization Fund was as stated publicly and that the only other benefit that might accrue would result from the successful operation of this instrument.

Respectfully yours,

For the Ambassador:
HERSCHEL V. JOHNSON
Counselor of Embassy

893.51/6928

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] June 17, 1939.

The French Ambassador came in and said he had heard of a report from Ambassador Bullitt to me,⁴⁹ to the effect that I had previously suggested to the French Ambassador that it might not be best for the French to make loans to China at this stage, the theory being that it might irritate Japan. The Ambassador said that, of course, I had not said any such thing to him and he had not thought of such an idea himself, much less reported it back to his Government. This was the substance of our conversation. There were some general remarks by him about the world situation, with special reference to Europe, but nothing of consequence.

C[ORDELL] H[ULL]

793.94/15119

Memorandum of Conversation, by the Secretary of State

[Extracts]

[WASHINGTON,] June 21, 1939.

The Ambassador of China called on his own request. . . .

The Ambassador then stated that his Government had been able to secure loans of about 75 million dollars on the strength of the loan of 25 million dollars of our Export-Import Bank. This included 25 million dollars from the British governmental agencies, etc., etc. He said he was sure that their consignments of tung oil would come through safely and regularly. He then said that none of the 25

⁴⁹ Telegram, No. 1076, June 6, 5 p. m., p. 671.

million dollar loan made by this Government to China had been expended for anything of a military nature by his Government. Finally he urged me, in behalf of Finance Minister Kung, to support an application for a further loan from the Export-Import Bank. I said that Jesse Jones is President of the Export-Import Bank⁵⁰ and that the Ambassador would probably want to take the matter up with him and the Treasury as a first step.

C[ORDELL] H[ULL]

893.51/6929

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] June 22, 1939.

The French Ambassador called to see me this afternoon at his request. The Ambassador started in by telling me of his conversation with the Secretary and with Mr. Dunn⁵¹ on the subject of the report sent by our Embassy in Paris quoting the opinion expressed by the French Foreign Minister to the effect that this Government had indicated to the French Ambassador here that it was not favorably inclined towards any financial or other assistance to China. The Ambassador said that he had already explained to the Secretary and to Mr. Dunn that in all of his conversations with officials of this Department, including myself, the opinion had always been expressed that this Government believed that such assistance as might be appropriate and feasible should be extended to China. Consequently, he could only assume that M. Bonnet, who had seen a telegram from the Ambassador some months ago reporting a conversation he had had with me in which I had stated that this Government was not prepared at the present moment to consider the imposition of economic sanctions on Japan, had gathered that because of that statement we were not prepared to do anything at all that might irritate Japan even including the lending of proper and appropriate assistance to China.

I merely stated that I did not recall ever having discussed the two matters at the same time and that I did not see any connection between them. The Ambassador said that he had already taken every necessary step to clear up this apprehension which had existed on the part of his own Government.

The Ambassador talked in a desultory manner about conditions in the Far East about which he had no recent information.

S[UMNER] W[ELLES]

⁵⁰ Jesse H. Jones was Chairman of the Executive Committee of the Export-Import Bank.

⁵¹ Memorandum of conversation by James Clement Dunn, Adviser on Political Relations, on June 17, not printed.

893.516/629a : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Kennedy)*

WASHINGTON, June 23, 1939—7 p. m.

479. The Department desires that you approach the British Foreign Office and orally and informally make a statement along lines as follows:

The British Government has in the past expressed its views that cooperation among foreign banks in China is desirable. For this reason the American Government desires to call to the attention of the British Government three instances in which British banks would seem to have acted in a manner which American bankers have felt did not conform to that spirit of cooperation which they have been endeavoring to maintain.

The manner in which the new Chinese exchange policy was put into effect on June 7⁵² by the Stabilization Committee, upon which are represented two British banks, has created an unfortunate impression upon American and other banks which have been endeavoring to cooperate with the exchange control. American bankers in China do not quarrel with the decision for a change of exchange policy by the control authorities but they learned of the new exchange policy only when one of the foreign banks applied to the control authorities and was told that no exchange was being sold. In view of the cooperation which American banks have demonstrated in the past toward the exchange control authorities it would appear that those banks are entitled to a greater degree of consideration and cooperation on the part of those authorities.

Our reports indicate that early in the month of March British banks in north China announced their attitude in regard to the trade and exchange control measures instituted by the local authorities and then without having first consulted American banks sought to bring pressure upon American banks to adopt the same attitude.

At Shanghai, notwithstanding reported promises of the manager of the Chartered Bank as the senior British bank that the British banks would consult American banks with a view to maintaining a common policy in regard to acceptance of the new Huahsing Bank notes, American banks were not even informed of the decision of the British banks not to have anything to do with the Huahsing Bank or its notes until the decision became generally known to the customers of the British banks on May 1.

American banks in China have not protested against the foregoing acts of British banks in China but it is our understanding that the American banks feel that those acts have not been in conformity with a spirit of cooperation.

HULL

⁵² On instruction of the Stabilization Committee, the banking agents of the Chinese Stabilization Fund in Shanghai refused to sell foreign exchange for Chinese currency. This withdrawal of support resulted in a fall in the exchange value of that currency.

893.516/619 : Telegram

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

WASHINGTON, June 23, 1939—7 p. m.

113. Shanghai's 486, June 9, 7 p. m.⁵³ Please approach appropriate officials of the Chinese Government at such time as may appear opportune and say orally and informally that in view of the Chinese Government's previously expressed desire that American bankers in China cooperate in policies desired by the Chinese Government, the American Government desires to ask that the utmost feasible effort be made to facilitate that cooperation. You may add that the manner in which the new exchange policy was put into effect by the Stabilization Committee created an unfortunate impression not only upon American but also upon other foreign banks which have been endeavoring to cooperate with the exchange control; that foreign banks learned of the new exchange policy only when one of them applied to the control authorities and was told that no exchange was being sold. Say in conclusion that American bankers in China do not quarrel with the decision for a change of exchange policy by the control authorities but that they feel that the procedure followed in the instance under reference was not as considerate as might warrantedly have been expected.

For your confidential information the Department is instructing the Embassy in London to express views similar to the foregoing to appropriate officials of the British Foreign Office and in addition, in connection with the general question of cooperation among foreign banks in China, to point out two other instances (in connection with north China trade and exchange control measures early in March, and the Huahsing Bank in Shanghai on May 1) in which British banks have acted in a manner which American banks have felt did not conform with a spirit of cooperation.

Repeated to Shanghai and Peiping.

HULL

893.516/627 : Telegram

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

CHUNGKING, June 26, 1939—9 a. m.

[Received 1:48 p. m.]

408. Department's 113, June 23, 7 p. m. I took the occasion last evening to bring this matter to attention of Kung who stated it was their desire to cooperate with American banks and suggested that situation would be simplified if American bankers joined Exchange

⁵³ Not printed.

Stabilization Fund, from which they were buying exchange. He pointed out that French had joined. It is my understanding that one of the purposes of recent visit of French Ambassador to Chungking was to complete an arrangement whereby a French contribution to the Stabilization Fund set up by British was made.

Repeated to Peiping, Shanghai.

JOHNSON

893.102 Tientsin/321 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, June 28, 1939—4 p. m.

[Received June 28—12:50 p. m.]

906. In the London press of today it was intimated that the Japanese "semi-official" programme for the Anglo-Japanese negotiations on Tientsin includes (1) recognition by the Concession authorities and banks of the money of the Japanese controlled Federal Reserve Bank and refusal to accept or exchange the currency of the Chinese Government, and (2) handing over to the Federal Reserve Bank of the silver belonging to the Chinese Government now in the Concessions.

The French Financial Attaché informed a member of my staff, since the French Government was on the point of contributing to the China currency Stabilization Fund (my 2867, June 15), he had requested assurances from the British Treasury this morning that the negotiations about Tientsin would not result in a change in their attitude towards the Chinese currency situation. He stated that he had received the requisite assurances in unambiguous terms.

However, in the course of luncheon conversation a member of the Cabinet referred to the Chinese currency problem, about which he was not at all clear in his own mind, but volunteered to me that he felt that what they might do might embarrass them with the French and the Americans.

As indicated in the second paragraph of my 905, June 27, 7 p. m.,⁵⁴ I think we should watch this aspect closely.

KENNEDY

⁵⁴ Vol. IV, p. 205.

893.516/631 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, June 30, 1939—10 p. m.

[Received June 30—4:45 p. m.]

924. Your 479, June 23, 7 p. m. was duly communicated orally and informally to the British Foreign Office. In the course of a conversation today Bewley of the British Treasury stated that that matter had been referred by telegraph to Shanghai. At the same time he offered the personal comment that the first complaint (fourth paragraph of your 479) did not seem to him well founded in that an exchange stabilization fund could not operate successfully and at the same time give prior notice of its actions.

Bewley went on to say that while the spot squeezing tactics were having the desired effect Rogers was aware that a secondary danger might be created of involving some of the Chinese banks in difficulties. The British Ambassador in Shanghai had therefore been instructed to get in touch with his colleagues to the end that the gentlemen's agreement of 1937 should be fully implemented.

He intimated that the Stabilization Fund had suffered considerable losses and that these technical tactics had been employed as the best available substitute for meeting the strain on the Chinese dollar which increased importations into China had recently accentuated. He went on to say that £10,000,000 was obviously too small a sum to reenforce a currency of a country the size of a continent at war and he cast out a hint that due to the necessity of aiding its newly found allies⁵⁵ Great Britain was not in a position to give further financial aid to China except through the export credit schemes. He maintained that the British Government was prepared to render further aid in that way, the inference being America might consider contributing to the Stabilization Fund. However, he took pains not to make any specific suggestion.

Bewley also read an extract from a report of Rogers which he said he passed on for what it might be worth:

"The American-Chinese agreement provides for a schedule of wood oil shipments which will provide almost double the amount of the United States currency required to meet the service of the credit and this surplus is to be used to buy American manufactured products other than munitions. This blocks United States exchange which would otherwise accrue to the balance of payments."

KENNEDY

⁵⁵ Greece, Poland, and Rumania.

893.51/6933A : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Kennedy)*

WASHINGTON, July 7, 1939—7 p. m.

510. Your 924, June 30, 10 p. m. With reference to Bewley's comment that an exchange stabilization fund cannot operate successfully and at the same time give prior notice of its actions, the Department desires that you tell Bewley that it is our impression that American banks do not expect prior notice of the actions of the Stabilization Committee but that at the time of the recent change of exchange policy they felt that it would have involved no great difficulty for the Stabilization Committee to have informed American and other cooperating banks at the close of business on one day that the control would not operate on the next.

In regard to Rogers' statement with respect to the operation of the Export-Import Bank's credit which Bewley passed on to you, the Department desires that you inform Bewley orally and in strict confidence that in view of the fact that the Chinese Government is engaged in large scale hostilities and is obliged to make regularly large purchases of raw and manufactured products abroad, the provision that that half of the revenue of the Universal Trading Company (accruing from wood oil sales) which is not pledged for the service of the credit shall be used (after an allowance therefrom for reasonable operating expenses and reserves) for the purchase of American agricultural and manufactured products, can scarcely be considered a drain on China's balance of payments. You may say that although the Universal Trading Company is pledged by its contract with its Chinese correspondent and with the Export-Import Bank to buy American agricultural and manufactured products with the unpledged revenue, the American Government has no control over the expenditure of that revenue and makes no stipulation in its regard other than the foregoing. Finally, you may say that in any case the surplus is small: Even at such time as the credit may be drawn on in full, the surplus will probably not exceed around \$1,125,000 annually, out of which the entire expenses and reserve requirements of the Universal Trading Company must be met.

Referring to the statement on page 3 of your despatch No. 2857, June 14, 1939, that "the British Treasury asked in turn for information as to how far the Chinese have drawn upon the \$25,000,000 American credit", you may inform appropriate officials of the British Treasury in strict confidence that to date approximately \$7,500,000 have been actually paid out, the orders have been placed which will require substantially more.

HULL

893.516/632 : Telegram

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

CHUNGKING, July 8, 1939—1 p. m.

[Received July 9—9:10 a. m.]

432. Following is Embassy's translation of circular note from the Foreign Office, dated July 1, received July 5:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that it has received a communication from the Ministry of Finance stating:

'A report has been received that foreign banks have taken advantage of the enforcement of the present method providing for limitation of withdrawals of deposits in the municipality of Shanghai to absorb deposits and that in 2 or 3 days as much as 20 to 30 million dollars of deposits have been withdrawn from various Chinese banks.

The aforementioned method is, in view of the widespread habit of withdrawing deposits and competition for the purchase of foreign exchange, an emergency measure for settling the financial market and for assisting in the stabilization of foreign exchange. This is beneficial to both Chinese and foreign trade. The banks of the various friendly nations should naturally continue to render assistance on the basis of the cooperative spirit followed since the outbreak of the August 13, 1937, incident of accepting no new deposits and of selling no foreign exchange to speculators, in order to maintain the financial markets and further friendly relations. Please consult the diplomatic representatives of the various nations concerned in regard to the transmission of instructions to the banks of their respective nationalities in Shanghai uniformly to refuse deposits in legal tender notes so as to manifest assistance in the matter.'

Apart from addressing separate communications to those concerned, the Ministry of Foreign Affairs in inditing this third person note for the Embassy's information has the honor to request that the Embassy act in the matter and transmit a reply."

Repeated to Peiping and Shanghai.

JOHNSON

893.51/6934 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, July 10, 1939—8 p. m.

[Received July 10—3:53 p. m.]

967. The information contained in your 510, July 7, 7 p. m., was in the absence of Bewley, on leave, conveyed to the appropriate official of the British Treasury who expressed appreciation therefor.

He brought up the subject of the Tientsin affair negotiations and expressed the opinion that if they were confined to such matters as the custody of the four Chinese they merely concerned the British Government but that if they included questions of Chinese currency they obviously involved others. He went on to express the view that it was impossible to envisage compromise on the currency problem: either the currency of the legally recognized Government of China

was the official medium or it was not. But at the same time he issued a clear warning that the British negotiators in Tokyo harbored ideas of compromise on this issue. Asked about the French contribution to the Stabilization Fund he made the significant statement that the French had become more hesitant about taking this step. It therefore seems reasonable to assume that the British Treasury is opposed to modifying its attitude on the Chinese currency question but as indicated in my 906, June 28, 4 p. m., the British Government is inclined to do so.

KENNEDY

893.51/6950

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] July 11, 1939.

The Chinese Ambassador called at his request. He referred to a conversation which he had had with the Secretary some weeks ago⁵⁶ during which he (the Ambassador) had expressed the hope that it might be feasible for the American Government to extend credits to the Chinese Government in addition to the credits extended by the Export-Import Bank to the Universal Trading Corporation. At that time the Secretary had suggested that the Ambassador might care to take this matter up with Mr. Jesse Jones.

The Ambassador said that he had discussed the matter with various officials in the Treasury Department and that those officials seemed definitely to prefer that any initiative in this matter in so far as American governmental agencies are concerned should come from the Department of State.

I asked the Ambassador whether he had as yet seen Mr. Jesse Jones. He said that he had not but that he intended to do so.

M[AXWELL] M. H[AMILTON]

893.516/632 : Telegram

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

WASHINGTON, July 13, 1939—4 p. m.

244. Chungking's 432, July 8, 1 p. m. The Department understands that American and other foreign banks voluntarily agreed in conferences with the Chinese financial authorities in August, 1937 to discourage new or largely increased Chinese deposits. Has this pol-

⁵⁶ June 21.

icy been abandoned by foreign banks? Your comment on Chungking's telegram under reference would be appreciated.

Repeated to Chungking and Peiping.

HULL

893.516/639 : Telegram

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

SHANGHAI, July 15, 1939—6 p. m.

[Received July 16—3:30 a. m.]

609. Reference Department's No. 244, July 13, 4 p. m. Foreign bankers assert that they are not encouraging or soliciting Chinese accounts and that they are continuing to do all that can reasonably be expected by way of discouraging such accounts, Mackay of the National City Bank of New York tells me that a survey of their books shows that since early June the deposits to Chinese savings and current accounts have dropped off approximately 15%.

My inquiry leads me to the conclusion that the foreign banks have not discouraged Chinese savings accounts. Other accounts while not encouraged or solicited may be accepted if regarded as legitimate and the applicants are well sponsored by the bank's customers.

The recent action of the Chinese Government in freezing for a second time the deposits in Chinese banks has undoubtedly resulted in loss of confidence by the Chinese public and the non-government Chinese banks. Chinese bankers are quoted as admitting that their depositors almost without exception are availing themselves of the provision which permits them to withdraw \$500 weekly. Observers state that these withdrawals are being largely hoarded in currency or in merchandise.

Repeated to Chungking, Peiping.

GAUSS

893.51/6940 : Telegram

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

CHUNGKING, July 18, 1939—11 a. m.

[Received July 18—8:20 a. m.]

445. Young informed McHugh on July 17 that the drain during the preceding 3 days on the Stabilization Fund had been unusually heavy, about half of the demand coming from the American Express Company and the National City Bank. He asserted that support of the Shanghai market by the Fund would have to be discontinued in the very near future unless further financial aid is received from

abroad or some very unusual turn occurs in the political situation. He denied any knowledge or hope that London might make a further contribution to Fund.

Young stated that the restrictions on withdrawals instituted on June 22 to meet the last crisis had not been made as stringent as he had recommended and that as a result money had leaked into the market as well as being forwarded from other parts of China. A temporary breathing spell had been achieved however which had given time for the issuance of new regulations providing for the prohibition of certain imports, rationing of exchange for essential exports and requiring the delivery of export exchange to the Government.

It is hoped that the measures applied in the Government controlled areas will help to hold up the value of the currency in the occupied areas. This end will also be served if the Japanese try to maintain the value of the currencies which they sponsor there. He also believes that the Japanese notes will be handicapped further by unpopularity and by the unfavorable balance of exports resulting from the large demand for imports plus the Japanese obstruction of normal export channels and attempts at monopoly which will further assist Chinese currency in competition with Japanese. He admitted, however, that a serious black market on Chinese currency within the occupied areas may be expected to develop as soon as the fund ceases operation. Young informed me that contrary to expectations of Dr. Kung, reported in my 408, June 26, 9 a. m., French have not made any contribution to the Stabilization Fund.

Repeated to Shanghai.

JOHNSON

893.5151/637: Telegram

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

SHANGHAI, July 18, 1939—11 a. m.

[Received July 18—8:40 a. m.]

615. The exchange control withdrew support this morning and the Chinese dollar has dropped to around 5 pence. On this occasion notice of the proposed action of the exchange control was given in advance to the American banks.

Yesterday the Chinese banks refused to accept Chinese bank notes of the Tientsin issue indicating that support of the Tientsin market has definitely been abandoned.

It remains to be seen whether exchange control will also abandon the Shanghai market or step in later to support the dollar at somewhere around 5 pence or lower.

Bankers tell me that the apparent object is to drop the rate to a

point where Chinese funds held abroad will be repatriated. A well informed American observer tells me that he does not believe that such repatriation will be accomplished at a rate of 5 pence.

Repeated to Chungking, Peiping and Tientsin.

GAUSS

893.51/6942 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, July 19, 1939—noon.

[Received July 19—noon.]

232. With reference to the abrupt fall yesterday in the exchange value of the Chinese dollar, I have information from a Chinese member of the Stabilization Fund Committee that the Fund is exhausted. Information from the same source indicated that the French 2 million pounds which were about to be made available for the Fund have been withheld mainly due to the influence of the Tientsin incident and will not be made available without some form of British guarantee.

Repeated to Chungking, Shanghai, Peiping.

SOUTHARD

893.51/6943 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, July 19, 1939—7 p. m.

[Received July 19—3:30 p. m.]

1024. British Treasury states that it is today informing the Chinese orally that the Export Credit Guarantees Department is prepared to authorize a credit of £2,500,000, that it has not yet so informed the Chinese but it is in fact prepared to increase the amount to £3,000,000. The Chinese list of requirements totals £3,100,000 and is designed to facilitate the immediate prosecution of the war and industrial expansion in southwest China. It includes such items as steel, tools, wireless telephone and broadcasting equipment, machinery and materials required by the National Resources Commission, industrial material and equipment submitted by the Industrial Mining Adjustment Administration, equipment for a paper mill and woolen textile and airplane factories, military equipment and supplies.

The British Treasury has authorized the Export Credit Guarantees Department to accept capital repayment over a 10-year period which

will not begin until 4 years after the conclusion of the credit agreement.⁵⁷

As regards the recent depreciation of the Chinese dollar the British Treasury states that both it and the Bank of England are somewhat "mystified" as to why Rogers and the Stabilization Committee did not allow the currency to depreciate to present level prior to the institution of the bank withdrawal restrictions but can only assume that demands have lately been unexpectedly heavy. The British Treasury feels that at 5 pence the Chinese dollar is if anything undervalued but the unknown factor is whether there still remains a substantial amount of money which will leave China at almost any price. Referring to the negotiations in Tokyo, the British Treasury again reiterated its attitude reported in my 967, July 10, 8 p. m. and indicated that the head of the Chartered Bank had recently returned to London and was expounding the same point of view.

It would be appreciated if the appropriate part of the foregoing be forwarded to the Treasury.

KENNEDY

793.94/15483

*Generalissimo Chiang Kai-shek to President Roosevelt*⁵⁸

CHUNGKING, July 20, 1939.

MY DEAR PRESIDENT ROOSEVELT: I wish to thank you, first of all, for your kind letter of April 18⁵⁹ replying to my message of March 25, and to express my deep appreciation for your approval of certain remarks which I had occasion to make in the interests of international order and justice.

I am now sending Dr. W. W. Yen, who served for several years as China's diplomatic representative in the United States, to Washington to see you and, on my behalf, exchange views with you concerning the general situation in the Far East. I have also asked him to bring you this letter in which, with your permission, I am going to set forth my points of view for your consideration.

The main points of my thought relate to the following: first, the upholding of the principles of the Nine Power Treaty;⁶⁰ second, China's need of material assistance: and third, the European situation in relation to the Far East.

⁵⁷ See also telegram No. 1054, July 24, 5 p. m., from the Chargé in the United Kingdom, p. 730.

⁵⁸ Copy handed by the Chinese Ambassador to the Adviser on Political Relations on October 14; original delivered to President Roosevelt by Dr. W. W. Yen on November 3.

⁵⁹ See letter dated April 8, p. 663.

⁶⁰ Signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

Regarding the first point, it is quite clear that Japan has in no way changed her untenable attitude toward international treaties. She is not more inclined now than at the time of the Brussels Conference⁶¹ to show any respect to the Nine Power Treaty which she freely signed. What Japan fears, however, is strong insistence backed by effective weapons upon the observance of treaty rights and obligations which she considers herself able to ignore with impunity, as long as the parties concerned only voice their dissatisfaction by words. She has even been encouraged to believe that violations of treaties might become *faits accomplis* which would eventually obtain recognition by the Powers.

In your speech delivered before Congress on January 4,⁶² you spoke of the "many methods, short of war, but stronger and more effective than mere words, of bringing home to aggressor governments the aggregate sentiment of our people". I am sure that all such methods must have been thought out and carefully examined by you and your Government. I venture to think, however, that there are certain measures which may be found particularly efficacious and which may therefore hasten the termination of the present conflict.

Now, the weapons at the disposal of the United States which will prove effective necessarily include the absolute prohibition of the exportation of materials and implements of war to Japan, especially iron and petrol, the prohibition of the importation of staple Japanese products, the increase of tariff rates on those products as has been done in the case of German imports, the closing of certain ports to Japanese ships, and other measures of a similar nature. There are, of course, stronger and more effective weapons. But these economic reprisals which are fully justified in international law and, I believe, also permissible under American domestic law, will be sufficient to bring home to Japanese militarists the weight of public opinion of the United States which they cannot afford to ignore.

These measures, which will have the effect of weakening Japan's sinews of war and her general economic conditions, will inevitably compel her to take the only safe course left her by agreeing to solve all problems concerning China and other interested Powers at the council table. It will then be possible for the United States, by virtue of the Nine Power Treaty or her well recognized position as a peace-promoting State, to call a conference at which the participating Powers may be able to seek, by processes of free negotiation, a settlement based on reason and justice. Measures of reprisal are thus only the means to an end—an end desired by all peace-loving nations and bound to be accepted even by aggressor nations.

The termination of the conflict by conference may perhaps be

⁶¹ See *Foreign Relations*, 1937, vol. iv, pp. 155 ff.

⁶² *Congressional Record*, vol. 84, pt. 1, p. 74.

brought about in another way. The Government of the United States may first invite the Powers chiefly concerned to a conference at Washington or elsewhere and, in the event of Japan declining to participate, would be the more justified in applying to a recalcitrant country the measures outlined above. The enforcement of such measures even for a brief space of time will surely bring Japan back to her senses and ultimately make her accept the conference proposal. Thus, the principles of the Nine Power Treaty may be upheld.

The second point of my thought relates to China's need of material assistance. After about two years' hard struggle for national existence, China, I believe, is now in a much better position than at any time during that period. The morale of our people as well as our army is excellent: the whole nation is more firmly united than ever: and the strength of our armed forces, in consequence of their recent reorganization and intensive training, is much greater than ever before. I state these facts because I know that, as the most trustworthy friend of China, you are deeply concerned with the outcome of our struggle.

I do not mean to say, however, that we are without serious handicaps. Owing to financial and transportation difficulties, our army is not yet adequately equipped as it should be. Furthermore, in the event of a European war, new difficulties are bound to arise in the matter of transportation, and any material aid which friendly nations may then be willing to accord to China, will certainly meet with more obstacles in reaching its destination.

Having enjoyed the benefit of America's moral support and financial help in the form of commercial credits, China looks forward with great earnestness to further timely material assistance from the American Government and financiers. Substantial amounts granted at this juncture would be of inestimable value to us in view of Japan's attempt to undermine our currency and economic fabric.

China is traditionally a peace-loving country. Relentless and ceaseless pressure of Japanese aggression in China has forced us to take up arms to resist, for we realize that as long as Japanese aggression persists, no peace consonant with justice and in conformity with the principles of the Nine Power Treaty can be attained. Unless and until such a peace is secured, China is determined to fight on and will never yield or surrender. If material assistance to China by friendly nations can be assured, there will not be the slightest doubt that she can and will curb the ambition of the Japanese militarists. In this way, China will be enabled not only to protect her own territorial and political integrity, and the rights and interests of the Western Powers in China, but also to contribute a large share to the maintenance of international peace and order.

The third point of my thought concerns the European situation in

relation to the present conflict in the Far East. The present situation in Europe seems to be very discouraging. Should war break out, involving all the great democratic Powers in Europe, it is a certainty that Japan would employ all means of coercion and intimidation vis-à-vis Great Britain and France in order to bring about a change of the attitude they have hitherto assumed toward the Sino-Japanese conflict.

In such an eventuality, the attitude and action which the American Government may take, will prove to be the decisive factor in the shaping of future events in the Pacific. The recent transfer of the American fleet to the Pacific demonstrates your great statesmanship and proves that you are fully aware of, and prepared to assume, the responsibilities which will fall upon your great country in the Pacific region when war breaks out in Europe. In that event, I sincerely hope that your country will exercise its best influence on the democratic Powers in Europe so that they may not come to any understanding with the aggressor nations in the Far East, which would be contrary to the spirit of the Nine Power Treaty, detrimental to the rights and interests of China and prejudicial to the successful prosecution of China's war of resistance.

The calling of a conference to settle the present bloody conflict, the enforcement of measures of reprisal against a treaty-breaking Power as a means to an end, the rendering of further assistance to a nation that is fighting for the maintenance of law and order among nations as well as for its own existence, the assuming of more responsibilities in the Pacific region in case of war in Europe, and any other possible methods, short of war, for securing peace are consistent, I suppose, with the laws of the United States and the current opinion of the American people, and may also, I venture to hope, be considered within the bounds of practicability.

I have no doubt that you have been giving serious consideration to the various aspects of these measures. What I feel inclined particularly to emphasize is the importance of the time factor. We have already fought for two years a war of resistance which, on account of Japan's increasing pressure, political, economic as well as military, is now entering its most critical stage. I therefore cannot refrain from expressing the fervent hope that your Government will take some positive action in dealing with the aggressor and giving further assistance to the defender before the end of the present year. I trust that other signatories of the Nine Power Treaty will not fail to follow your lead.

The attitude and action of the United States, with all her prestige, strength and resources, constitute a factor which Japan, however defiant and desperate she may be, must reckon with. The United States is at present the only country which Japan yet respects and to

whose admonitions she cannot refuse to listen. You therefore hold the key to the solution of all Far Eastern problems, and consequently other problems of the world.

Knowing that you are endeavouring to achieve the same end as we are now fighting for, namely, the upholding of the sanctity of treaties and the maintenance of international peace and order, and confidently believing that your great country is China's real friend in time of crisis, I take the liberty of writing you this confidential letter, setting forth unreservedly for your kind consideration my personal views which, I am sure, represent the unanimous sentiment of the Chinese people. Any views which you may express to Dr. Yen in his capacity as my personal representative will be deeply appreciated and will receive my closest attention.

Very sincerely yours,

CHIANG KAI-SHEK

893.5151/641

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] July 21, 1939.

The Chinese Ambassador called at his request and handed me the attached translation of a cablegram of July 18 from the Chinese Minister of Finance⁶³ in regard to the question of foreign exchange confronting the Chinese Government. The Ambassador said that he had given a copy of this telegram to Dr. Buck, a representative of the Treasury Department in China who is now in Washington.

With regard to the statements made in the second paragraph of the telegram to the effect that American banks and other concerns have purchased a large part of the foreign exchange sold recently, I told the Ambassador that our Embassy at Chungking had reported the receipt by it of communications from the Chinese Government containing similar statements. I said also that on occasions when inquiry had been made at Shanghai the replies made by the American concerns did not confirm the information communicated by the Chinese authorities.

When the Ambassador pressed me for comment in regard to the statements made in the last paragraph of the telegram from the Chinese Minister of Finance, I said that I would be lacking in frankness if I should lead him to expect an encouraging reply; that as the Ambassador would readily appreciate this was a very difficult matter; and that we would of course study the whole subject.

There then followed conversation of a general character.

M[AXWELL] M. H[AMILTON]

⁶³ *Infra.*

893.5151/641

*The Chinese Embassy to the Department of State*⁶⁴TRANSLATION OF A TELEGRAPHIC MESSAGE FROM HIS EXCELLENCY
DR. H. H. KUNG, DATED CHUNGKING, JULY 18, 1939

The question of foreign exchange has become very serious. There is not much Stabilization Fund left.

The foreign exchange sold recently was largely purchased by foreign merchants. According to reports received, a great part was acquired by the American Express Co., the National City Bank of New York and other American concerns. This is by no means a friendly act. So please do your best at your end to have such things stopped.

We are requesting the British to make an increase in the Stabilization Fund so as to enable its maintenance. But, as usual, the British will only follow the leadership of the United States.

In two years of our armed resistance, the strength of our enemy has been considerably spent. In a true sense we have been fighting the fight of the civilized world for peace, and we are confident that this objective is understood by the American leaders. As we are now facing a critical moment, we earnestly hope that the friendly nations will render us assistance.

At such a critical moment, fresh and substantial economic assistance from the American Government will do wonders to encourage our fighting forces and buttress our morale. I fully understand the conditions in the United States. If there should be unsurmountable difficulties, I hope the American Government would at least render us the assistance of finding some way to suggest to the British Government to make a substantial increase in the Stabilization Fund.

893.51/6947: Telegram

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

PARIS, July 26, 1939—7 p. m.
[Received July 26—4: 52 p. m.]

1381. I had lunch with Wellington Koo, the Chinese Ambassador, and Sun Fo⁶⁵ yesterday. They stated that the Chinese Stabilization Fund was now virtually exhausted. They added that the French Government was unwilling to advance the 200,000,000 francs agreed upon in view of the inadequacy of such a sum to support the Chinese dollar. They stated that some indication that further help would be

⁶⁴ Copy of telegram handed to the Chief of the Division of Far Eastern Affairs by the Chinese Ambassador on July 21.

⁶⁵ President of the Chinese Legislative Yuan, on mission in Europe.

forthcoming from the United States and England might be decisive in persuading the French to give China this 200,000,000 francs and possibly more.

They added that in a few days the British would sign an agreement to extend £3,000,000 of export credits to China for purchases in Great Britain. The British, however, had refused to introduce a new bill in Parliament for a further advance to the Chinese Stabilization Fund because of the rapidity with which the £5,000,000 advanced in March had been drained.

Wellington Koo said that the Chinese Ambassador in London had been assured categorically that the British had made no promise to the Japanese to refrain from supporting the Chinese dollar.

Both Koo and Sun Fo stated that they considered it vital to reestablish the Stabilization Fund on a basis sufficiently strong to make it immune to further attacks by the Japanese and others. They added that the moral effect of further assistance from China's friends in view of the recent Anglo-Japanese agreement⁶⁶ would be enormous.

The Chinese Ambassador then asked me if it might not be possible for the Government of the United States to advance gold immediately to China in payment of purchases of Chinese silver to be delivered by China 6 months or a year hence. I stated that I believed that such action would be illegal and that the question of the desirability or undesirability of such action therefore would not arise.

Later in conversation with Matthews,⁶⁷ the Chinese Ambassador said that there were now 20,000,000 ounces of silver owned by the Chinese Government in the French and British Concessions at Tientsin deposited in Chinese and foreign banks. He wondered whether the Government of the United States could not purchase this silver and assist in arranging transportation to the United States. In reply to a question he said to Matthews that he understood the British had made no commitment to help the Japanese acquire this silver.

The Chinese Ambassador then suggested to Matthews that it might conceivably be possible for the Export-Import Bank to grant credits to China for the export of another American commodity; namely, gold. Matthews expressed the opinion that such an action would presumably be illegal and that the proposal seemed rather fantastic. Wellington Koo said that he would get in touch with Dr. Kung at once and ask for definite instructions with regard to definite proposals. Meanwhile he would be greatly obliged if the Government of the United States could give thought to this matter and consider ways and means of assisting China to maintain a stable currency.

Since the Chinese Ambassador and Sun Fo are likely to question

⁶⁶ For the Arita-Craigie formula, see telegram No. 348, July 21, 6 p. m., from the Chargé in Japan, vol. IV, p. 224.

⁶⁷ Harrison Freeman Matthews, First Secretary of Embassy in France.

me further with regard to this matter, I should be obliged if you would give me instructions as to the nature of the reply I should make.

BULLITT

893.102 Tientsin/399 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, July 27, 1939—6 p. m.
[Received July 27—2:55 p. m.]

1075. During my conversation this morning with Mr. Butler, Parliamentary Under Secretary of State for Foreign Affairs, on the Anglo-Japanese negotiations at Tokyo,⁶⁸ I asked him if there were any change under consideration in British policy of support of the Chinese currency. He indicated somewhat evasively that the support would be continued but said that the matter was still before the Cabinet and that he could not go into it further at this time.

The British Treasury has informed Butterworth⁶⁹ that the suppression demands included (a) surrender of the Chinese silver in the Concession and (b) non-recognition in the Concession of Chinese currency as legal tender. Commenting on this "from the financial point of view" the British Treasury state that the answer to (a) was that the British banks were obligated in the matter of silver and would certainly not take any action which would have the effect of making them pay double; and to (b) that it was "impossible" to refuse to recognize the currency of the legally recognized government as non-legal tender. The British Treasury stated that the Bank of England was awaiting advices from Rogers⁷⁰ on the outlook for the Chinese dollar.

I was informed at the Foreign Office this afternoon that in view of the difficulties of finding an acceptable compromise over the Chinese currency question the British Ambassador at Washington has been instructed to inform the United States Government of the British attitude and to make it clear that the support of other interested powers is vitally important on this question.

The City Editor of the *Times* who is, I know, in close touch with the British monetary authorities respecting financial developments in China, stated editorially:

⁶⁸ See also telegram No. 1074, July 27, 5 p. m., from the Chargé in the United Kingdom, vol. iv, p. 227.

⁶⁹ William W. Butterworth, Jr., Second Secretary of Embassy in the United Kingdom.

⁷⁰ Cyril Rogers, of the Bank of England, member of the China Stabilization Fund Committee.

"Even those who are most expert in Chinese financial and economic problems feel the greatest doubt as to what would be the proper course to pursue in the immediate future. For the moment the pressure on the Shanghai dollar has abated, and the market is inclined to think even that some recovery is possible. But the problem remains formidable and there are many who consider that if confidence in the stability of the dollar is to be fully restored, assistance will have to be on a substantially larger scale than was envisaged when the Stabilization Fund was originally established. Some people are inclined to take the view that the task of securing the stability of the dollar is too great for this country to undertake any further in the absence of United States cooperation. It would seem almost self-evident that it must be in the United States' best interests to cooperate in this matter, for it is only by a reasonable stability of the dollar that American trading interests can be preserved, but so far there has been surprisingly little sign that such cooperation will be forthcoming. If further support is contemplated, whether with United States help or without it, the fullest account must naturally be taken of the fundamental economic forces which are weakening the position of the dollar."

JOHNSON

893.51/6947: Telegram

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

WASHINGTON, July 28, 1939—1 p. m.

573. Your 1381, July 26, 7 p. m. The Chinese Ambassador here informed the Department on July 21, that the Chinese stabilization fund is practically exhausted and expressed the hope that further financial assistance would be forthcoming. He was informed that we could not lead him to expect an encouraging reply but that the Department would study the whole subject.

The suggestion that the United States purchase the Chinese Government silver deposited in the British and French Concessions at Tientsin has been made to the Treasury Department informally on several occasions by the Chinese. The Treasury has taken the position that in view of the circumstances pertaining to this silver the matter of its purchase is a political one. For your strictly confidential information the considered opinion of the Department has been and is that any move of this Government toward acquiring a property interest in the silver in question would be inadvisable.

HULL

893.51/6957

The Chinese Ambassador (Hu Shih) to the Secretary of State

WASHINGTON, July 29, 1939.

MY DEAR MR. SECRETARY: I beg to enclose herewith for your information and consideration a copy of telegraphic message I have just

received from His Excellency Dr. H. H. Kung, President of the Executive Yuan and concurrently Minister of Finance, dated July 28, 1939, in regard to the critical question of our national currency and foreign exchange.

I am [etc.]

HU SHIH

[Enclosure]

TEXT OF A TELEGRAPHIC MESSAGE FROM HIS EXCELLENCY DR. H. H. KUNG, PRESIDENT OF EXECUTIVE YUAN AND CONCURRENTLY MINISTER OF FINANCE, DATED JULY 28, 1939

The Chinese Government exceedingly regrets that the withdrawal of support from the Shanghai exchange market was necessary last week because it had become impossible to allocate for that purpose funds on the scale that would have been required. The Government has established a system of import and export control under which exchange will be provided at favorable rates to supply the people of the Government-controlled areas with necessary imports and which will sustain the value of the currency in these areas. Moreover, steps are being taken to stimulate exports through ordinary channels of trade, to effect further retrenchment in government expenditures both for current needs and for capital outlays the benefit of which will not be realized in the near future, to restrict bank credit for private enterprises and to increase contributions of the public through taxes and loans.

The Chinese Government however is anxious that the value of the national currency be maintained also in the areas subject to Japanese interference. Should extreme depreciation result there and the situation get out of hand, the important interests of China and of the friendly Powers alike would seriously suffer. Such an unfortunate development would impair confidence in the currency throughout the entire country; increase the cost of living to the detriment of all; seriously interfere with raising of necessary expenditures of the Chinese Government; gravely prejudice the welfare of the people in the areas subject to Japanese interference whose loyalty has been so outstanding under most trying circumstances; facilitate creation of political disturbances by the Japanese; and make it easier for them to introduce their bogus currency in a position to finance their puppets and their schemes of economic and financial monopolies and to exclude all but Japanese interests.

China has carried on the war for over two years mostly from Chinese resources, although very valuable aid has been received from credits obtained from Great Britain, France and the United States and from American purchase of Chinese silver. China still has substantial resources for its requirements, but must strictly conserve them in view of the necessity of continuing the struggle for an in-

definite time. The Chinese Government has come to the point where it can no longer devote large resources to supporting the value of the national currency in the areas subject to Japanese interference. The Chinese Government therefore most earnestly requests the friendly foreign governments, individually or collectively as may be most suitable to them, to aid in maintaining the value of the Chinese dollar in the common interest, and most earnestly hopes that they will be in position to do so. Now that the rate of exchange has fallen to only a little over half of its value prior to June 7, it should not be so costly to keep it steady because the lower rate discourages imports and outward remittances and stimulates exports. Aid is needed without delay however so that the situation will not further deteriorate.

If as is hoped this proposal can be considered in principle, the Chinese Government is prepared to discuss particulars of arrangements best adapted to actual conditions and on a basis which would avoid difficulties encountered in the past.

Similar communications are being sent to the British and French Governments.

893.51/6984 : Telegram

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

CHUNGKING, July 31, 1939—9 a. m.

[Received July 31—7 a. m.]

477. My 468, July 27, 11 a. m. ⁷¹ The Embassy has been informed from several authentic sources which indicates that an agreement has been concluded between the Soviet Union and China whereby the former grants the latter Government credits to the equivalent of \$150,000,000 United States currency presumably for the purchase of supplies in Russia. The details of the agreement are not known though there are reports that the continental [*repayment?*] is to be made over a period of 15 years and that the interest rate is 3% per annum. It is understood that the above credit has no relation to the commercial treaty recently concluded between China and the Soviet Union ⁷² but may be an extension of the barter agreement.

Repeated to Peiping.

JOHNSON

⁷¹ Not printed.

⁷² Signed at Moscow, June 16, 1939; text in translation transmitted to the Department by the Ambassador in China in his despatch No. 497, April 2, 1940, not printed (661.9331/34).

893.51/6948 : Telegram

*The Ambassador in France (Bullitt) to the Secretary of State*PARIS, July 31, 1939—4 p. m.
[Received July 31—1:50 p. m.]

1414. I asked Leger this afternoon if the French Government now intended to go ahead with its projected loan to the Chinese Government. Leger replied that the papers with regard to this loan were up and awaiting signature but that the French Government would not sign the agreement unless the British Government should take parallel action and loan additional funds to China.

I pointed out that whereas the British Government and the Government of the United States had assisted the Chinese Government the French Government had as yet done nothing.

Leger replied that the present situation in the Far East was governed by new conditions. Both the French and British Governments had decided to withdraw from every position and possession that they held in the Far East if necessary to avoid war with Japan. In view of the situation in Europe they could not take any other attitude unless they could count on the active support of the United States in the Far East. Their attitude would depend on the degree of cooperation and collaboration that the British Government might be able to establish with the Government of the United States.

He added that while our denunciation of the trade treaty with Japan⁷³ had produced a most wholesome and admirable effect he regretted that this action had not occurred before the Arita-Craigie agreement⁷⁴ as the British might have taken a stronger position.

I then asked Leger if he had heard any rumors that the British might be inclined to close the Burma Road to shipments for China. Leger replied that he knew that the Japanese were asking this and he thought the British might be disposed to make this concession to the Japanese.⁷⁵

I then asked him if shipments through Indo-China were being continued as heretofore. He replied that they were being continued. I asked if they would be continued in the future even though Great Britain should forbid passage of supplies to the Chinese Government via the Burma Road. He answered that in that case the French Government would be obliged to follow the lead of the British Government and forbid shipments of military supplies by way of Indo-China.

Leger made it entirely clear that the French Government would follow the lead of the British Government in respect of policy in the Far East.

BULLITT

⁷³ See note of July 26 to the Japanese Ambassador in Washington, p. 558.

⁷⁴ See telegram No. 348, July 21, 6 p. m., from the Chargé in Japan, vol. rv, p. 224.

⁷⁵ See Department's telegram No. 591, August 5, 2 p. m., p. 704.

893.51/6949 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*LONDON, August 1, 1939—5 p. m.
[Received August 1—12:42 p. m.]

1099. As regards the question of Chinese currency the Prime Minister stated in last night's foreign affairs debate:

"I have been asked a number of questions about particular items such as the handing over of silver in the Concession and support for the Chinese currency. These are questions which are not confined to Tientsin, they are larger questions and they are questions which do not affect only this country. It is perfectly certain therefore that we could not discuss questions of that character without the fullest communication with other countries whose interests are equally involved with our own."

With reference to the implications which are being made with increasing frequency that it is now the United States' turn to contribute support to the Chinese dollar (the penultimate paragraph Embassy's 924, June 30, 10 p. m., and penultimate paragraph Embassy's 1054, July 24, 5 p. m.⁷⁶), it is noteworthy that Eden⁷⁷ asked for assurances "that not only will we not connive in any attempt to weaken the Chinese currency but we shall continue the policy on which we have hitherto been engaged of doing all we can to support the Chinese currency itself". However, the Parliamentary Under Secretary in winding up the debate merely stated:

"In the matter of the Chinese currency which has been raised notably by my honorable friend the member for Kidderminster (Sir J. Wardlaw-Milne) we are continuing our interest. I would remind the House of Commons that His Majesty's Government have done more, I think I can safely say, for the Chinese currency, which is a matter of international interest and of interest to the Japanese Government as well, than any other government that I can think of."

JOHNSON

893.51/6959

Memorandum by the Adviser on Political Relations (Hornbeck) of a Conversation With the Chinese Ambassador (Hu Shih)

[WASHINGTON,] August 2, 1939.

The Ambassador had called on me with regard to another matter. At the conclusion of the conversation begun at the Ambassador's instance, I said that there was a matter regarding which I had been

⁷⁶ *Post*, p. 730.⁷⁷ Anthony Eden, British Member of Parliament (Conservative).

asked to speak with him. I referred to the letter and enclosure above indicated.⁷⁸ I said that the Ambassador was doubtless cognizant of the action taken in Congress yesterday with regard to the "lending and spending" bill.⁷⁹ The Ambassador said that he was. I said that I knew that the Ambassador was studying closely the general situation in this country and developments not only in the political and economic fields but in other fields, and that he was aware of attitudes and trends as well as of constitutional and legal procedures and limitations. I said that our Government has been observing with care developments in the currency situation in China and appreciates the difficulties which confront the Chinese Government in connection therewith, a situation which affects adversely not only the Chinese Government but also interests of other countries, including the United States. I said that the Ambassador was thoroughly familiar with methods which this Government has used for the safeguarding of its interests and of benefits which have accrued to China therefrom. I said that each government has to proceed within the framework of the institutions and capacities of the country for which it acts. Thus, each of the governments to which the currency situation in China presents a problem must proceed in its own way.

The Ambassador said that he was well aware of this and that he was sure that Chiang Kai-shek understood it completely, but that there were some other of the Chinese officials who seem slow to understand. He said that he was constantly sending telegrams not only to Chungking but also to his colleagues in London and in Paris trying to get them to understand the realities. I said that I hoped that he and his colleagues would be successful not only in getting Chinese officialdom to understand but in getting some officials of some other countries to understand—to understand especially that each country has its own responsibilities and, even where there may be a common objective, must do its own utmost toward its own fulfillment of its own responsibilities and toward its own safeguarding of its own interests.

The Ambassador said that there had taken place yesterday between Mr. K. P. Chen⁸⁰ and Mr. Warren Pierson⁸¹ a conversation regarding the situation in the light of the defeat of the spending and lending bill. He said that he fully understood the sympathetic attitude of the people and the Government of the United States and that he was sure that, pursuing our own methods, we would continue doing

⁷⁸ Reference is to the Chinese Ambassador's letter of July 29, with enclosure from H. H. Kung of July 28, p. 695.

⁷⁹ S. 2684 as amended was passed by the Senate on July 31; *Congressional Record*, vol. 84, pt. 10, p. 10512.

⁸⁰ Adviser to the Chinese Ministry of Finance.

⁸¹ President of the Export-Import Bank.

things among the consequences of which there would be benefits to China.

STANLEY K. HORNBECK

893.515/14344

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] August 3, 1939.

The British Chargé d'Affaires called at my request this afternoon. I told Mr. Mallet that I had two matters that I wanted to take up with him, the first relating to the question of Chinese currency, a matter which he had discussed at some length with me in a previous conversation and subsequently with Mr. Hamilton.⁸² I told Mr. Mallet for the confidential information of his Government that the American Chargé d'Affaires in Tokyo had been instructed⁸³ to make known to the Vice Minister for Foreign Affairs of Japan the concern of the Government of the United States in the broader problems involved in the current negotiations between the British and Japanese, including the currency question. With regard to the latter matter, the American Chargé d'Affaires had been authorized to say that "The Government of the United States could not be expected to give assent to any measures arranged by third states which would purport to make illegal the use in any portion of a sovereign state of the currency of the recognized government of that state."

Mr. Mallet said that he would communicate this for the confidential information of his Government and expressed the belief that this expression of the attitude of the United States would prove particularly helpful at this time.

I then, by the desire of the President although I did not so state to Mr. Mallet, informed Mr. Mallet that this Government had heard a report which reached it from a source to which attention had to be paid that the Japanese Government had demanded of the British Government that the latter close the Burma Road to China to all shipments of arms and ammunition.⁸⁴ I went on to say that we had heard from the same source that the British Government was supposed to be giving favorable consideration to the acceptance of this demand. I told Mr. Mallet that while I did not intend to make any official representations on this subject, I nevertheless thought that he might be interested in hearing the comment which the President had made when he had learned of this report. The President had stated that if

⁸² See memorandum by the Chief of the Division of Far Eastern Affairs, July 31, p. 435.

⁸³ Telegram No. 238, August 2, 8 p. m., p. 440.

⁸⁴ See telegram No. 1414, July 31, 4 p. m., from the Ambassador in France, p. 698.

the report were true and if the British Government intended to accede to this demand, the position of the United States would be that of a government which was attempting to give moral support to another government when the second government was deliberately undertaking to commit suicide.

Mr. Mallet expressed the deepest interest in what I told him the President had said, and said that he fully shared the President's views. He said that he had never received the slightest intimation that the British Government had either received such a demand or much less was giving consideration to such a demand. He said he did not believe the report. He said, however, that he would immediately make inquiry of his Government and let me know at once the reply which he received.⁸⁵

S[UMNER] W[ELLES]

893.51/8952 : Telegram

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

CHUNGKING, August 3, 1939—2 p. m.

[Received August 4—7:53 a. m.]

485. My 445, July 18, 11 a. m.

1. The following is a summary of views on the Chinese currency situation expressed to McHugh by Rogers during the last few days.

The practical exhaustion of the British Stabilization Fund has been brought about to a considerable extent by the Chinese Government itself which has not only failed to prevent flow of Chinese currency into Shanghai but has permitted large purchases of foreign exchange on behalf of the Government and of men connected therewith as well as of private persons.

Yet the Government is now attributing the depreciation of the national currency to unwarranted exhaustion of the fund and to the adoption of a method permitting Japanese raids on it (see concluding paragraphs of General Chiang's statement of July 24 reported in my 458, July 25, 9 a. m.⁸⁶). The Chinese Government has further handicapped successful operation of the Fund by depriving it of normal support from postal savings remittances, customs receipts and remittances from overseas Chinese which should have been available for exchange operations but were diverted to other uses.

2. The policy now adopted by the Chinese Government as sketched by Chiang is almost certain to produce price inflation and popular panic within 3 months with possible serious political results.

⁸⁵ See telegram No. 591, August 5, 2 p. m., to the Ambassador in France, p. 704.

⁸⁶ Not printed.

3. T. V. Soong is bitter over the lack of cooperation from Kung in measures of the support of the currency and threatens to sever all connection with the Chinese Government. On the other hand there is similar dissatisfaction with the Minister of Finance here in Chungking and if he were to vacate the post Soong would be willing to assume office and try to salvage the situation but in view of Chiang's speech the change is not likely.

4. There are however officials influential in the Chinese Government who have an intelligent understanding of currency problems who it is hoped will assert and it is highly desirable to consider what measures can usefully be taken by foreign governments to support the currency. Informant feels that the British Government was not only wise but generous in voting the Stabilization Fund without security and at low interest. While he does not ignore the great assistance that has been given by the American Government he points out that the Chinese have been seriously hampered by the requirement since January 1 that proceeds from silver sales must be expended for American goods and observes by way of contrast that gold deposits received from London do not have to be returned in the form of commodities.

[5.?] In regard to the pledge of tung oil in return for the \$25,000,000 credit he observes that the transaction can hardly be regarded as a measure purely designed to assist China because of the high interest, the fact that the amounts of oil stipulated for are double what would be required to liquidate the credit and the limitation of proceeds to the purchase of non-military goods which deprives China of possible use of these assets elsewhere for war munitions. He suggests ample protection would be afforded the American Government if from the proceeds of wood oil shipments a reserve fund of \$5,000,000 were established to provide against price fluctuations and if the balance of the oil were released to the Chinese Government.

Informant states that with difficulty he convinced the French Government in January that the British Government was not seeking profit from instituting the proposed Stabilization Fund and persuaded that Government to contribute to it but that at the last moment the French withdrew.

6. The informant, actuated evidently by loyalty to the Chinese cause and his conviction that enormous interests are at stake, urges in the strongest terms that foreign governments take immediate and effective steps to assist in maintaining improvements [which?] should be made in the method of Chinese cooperation. Despatch follows by air mail.⁸⁷

Repeated to Shanghai.

JOHNSON

⁸⁷ No. 296 of August 5; not printed.

893.24/594a : Telegram

The Acting Secretary of State to the Ambassador in France (Bullitt)

WASHINGTON, August 5, 1939—2 p. m.

591. Your 1414, July 31, 4 p. m. The British Government has informally informed me through the British Embassy here that the British Government has no intention to close the Burma Road to shipments for China.

WELLES

893.515/1429

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] August 8, 1939.

The French Ambassador called at his request. He left with me the attached *aide-mémoire*⁸⁸ in regard to communications received by the French Government from the Chinese Government in regard to matters relating to the currency situation in China. The Ambassador asked me whether the Department had received similar communications and, if so, what attitude the Department proposed to take in regard to the Chinese communications.

I told the Ambassador that several days ago we had received two communications from the Chinese Ambassador here. I said that in one of these communications the Chinese Government referred to arrangements which were under discussion with American bondholders looking toward resumption of foreign loan services.⁸⁹ I said that in this communication the Chinese Government stated that it had been forced to the conclusion that it was not in position at this time, due to the hostilities, to proceed with the negotiations and to make the payments contemplated. I said that the Chinese Government had asked us to explain the situation in confidence to the Foreign Bondholders' Protective Council, J. P. Morgan and Company and the Continental Illinois National Bank and Trust Company of Chicago. I said that, pursuant to the Chinese request, the Department had brought the views of the Chinese Government confidentially to the attention of the organizations named.

I told the Ambassador also that we had received another communication from the Chinese Ambassador here enclosing the text of a cablegram from the Chinese Minister of Finance in regard to the

⁸⁸ Not printed.⁸⁹ See letter from the Chinese Ambassador, July 29, p. 850.

question of Chinese national currency and foreign exchange.⁹⁰ I told the Ambassador that in this communication the Chinese Government had made a request that the American and other governments aid in maintaining the value of the Chinese dollar. I told the Ambassador that the Department had acknowledged the receipt of this communication from the Chinese Ambassador⁹¹ and that an officer of the Department had orally explained to the Chinese Ambassador⁹² that this Government had been observing with care developments in the currency situation in China and appreciated the difficulties which confronted the Chinese Government, a situation which affects adversely not only the Chinese Government but also interests of other countries, including the United States. I told the French Ambassador that it had been pointed out to the Chinese Ambassador that each government has to proceed within the framework of the institutions and capacities of the country for which it acts and that each of the governments to which the currency situation in China presents a problem must proceed in its own way. I told the French Ambassador that in the conversation with the Chinese Ambassador reference had been made to the methods which this Government had used for the safeguarding of its interests and to the benefits which had accrued to China therefrom.

After I had explained to the French Ambassador the action taken by the Department in regard to the two communications which the Department had received from the Chinese Ambassador here, the French Ambassador said that there was no need for the Department to reply further to the *aide-mémoire* which he had handed to me.

M[AXWELL] M. H[AMILTON]

893.515/1439

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

No. 2418

SHANGHAI, August 9, 1939.

[Received September 6.]

SIR: I have the honor to quote below an excerpt from an article by "Observer", which appeared in the *Sunday Mercury* (American) on August 6, 1939. The portion appeared in heavy type in the printed article and read:

"A report circulating in financial circles, which is not perhaps common knowledge, insinuates that a few days prior to the withdrawal of the support of the Chinese Dollar by the Control Committee last month, the wife of a ranking Government minister in Chungking telegraphed to Shanghai to a foreign broker to buy for her account

⁹⁰ See letter from the Chinese Ambassador, July 29, p. 695.

⁹¹ Dated August 4, not printed.

⁹² See memorandum by the Adviser on Political Relations, August 2, p. 699.

the huge sum of forty thousand (40,000) Pounds Sterling. Without doubting in the least the integrity of the minister, the disclosure of an important State secret to his enterprising spouse is a grave impropriety. And for the wife of a Government minister to take advantage of a State secret to 'facilitate the flight of capital from China' for her personal benefit at the present juncture is conduct deserving public condemnation. Nothing could be more injurious to China's cause than for her officials and their kin to abuse the sympathetic support of her friends."

From time to time rumors are quietly current concerning the participation of members of the Chinese Government or of their families in transactions accruing to their personal benefit until the feeling has grown in many quarters that there is in effect substance to them although it is admitted that the alleged transactions would indeed be difficult to prove. In this connection, reference is made to the remarks at the bottom of page 6 of the Embassy's confidential despatch no. 2655 [2855], July 21, 1934, entitled "Italian Aviation Interests in China", the Consulate General's confidential despatch no. 117, January 30, 1936, entitled "Further Publicity in Regard to the Slump in the Chinese Government Bond Market"⁹³ and more recently to the Ambassador's strictly confidential telegram No. 485 of August 3, 1939.

Respectfully yours,

C. E. GAUSS

793.94/15483

*The President of the Chinese Executive Yuan (Kung) to President Roosevelt*⁹⁴

CHUNGKING, August 17, 1939.

DEAR MR. PRESIDENT: I take great pleasure in sending you this message of remembrance and greetings through Dr. W. W. Yen, former Chinese Ambassador to Washington, who is on his way to attend the Institute of Pacific Relations Conference in Victoria as head of the Chinese Delegation.

Allow me to thank you for your esteemed letter⁹⁵ received some time ago through the courtesy of the American Embassy here and for your kind sentiments expressed therein toward the Chinese Government and people. Through Ambassador Johnson I was glad to learn also that you were enjoying good health and giving close and sympathetic consideration to the situation in China.

It is a source of satisfaction to me, as it must be to you also, to note the extension of economic cooperation between our two countries, particularly at the present moment. For your leadership which has

⁹³ Neither printed.

⁹⁴ Handed to President Roosevelt on November 3 by Dr. W. W. Yen.

⁹⁵ Dated February 14, not printed; it was delivered by the Embassy in China on April 11.

made such friendly cooperation possible, I wish to assure you of my hearty appreciation.

I cannot let this opportunity pass without expressing my high admiration of the courageous and statesmanlike step you have recently taken in declaring the abrogation of the American Trade Treaty with Japan. Prompted though it was by the necessity of protecting America's commercial interests, this timely measure was heartily welcomed and appreciated in China, especially as it came at a time when international developments were none too encouraging. I cannot sum up the reaction of the Chinese nation better than to quote Generalissimo Chiang Kai-shek who, only a few days before the world knew of your historic move, expressed the following belief: "The power making for justice held in the hands of friendly nations is now in process of gathering energy, and when the fitting moment comes it will make itself felt in a very effective manner. We believe that no friends will abandon or betray us while we ourselves remain sound and upright."

To you, Mr. President, I need hardly say that China is in effect fighting the battle of all democratic nations. The oft-recurring incidents in which the Japanese have trampled upon American rights and interests with impunity make me feel indeed sorry that our invaders have, in their undeclared war in this land, brought American rights and interests within the ambit of their lawlessness and aggression. Clearly, for America to help China financially and otherwise in checking the aggressor's ambition is to safeguard the security of America itself. On the other hand, I feel confident that if America should exert the full weight of its economic pressure on Japan, the latter's feet of clay must give way.

I look forward to ever closer friendship and cooperation between our two countries under your illustrious leadership.

With kindest personal regards,
Sincerely yours,

H. H. KUNG

893.51/6974: Telegram

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

CHUNGKING, August 18, 1939—noon.

[Received August 18—6 a. m.]

501. My 485, August 3, 2 p. m. McHugh has been told by an informant he believes to be well informed and reliable that the bill establishing a commercial credit fund of 10 million pounds was ready for final approval by the British Government just before Parliament adjourned on August 4 but was withheld on representations from the British Ambassador at Tokyo who urged that the inclusion in this amount of a sum of 3 million pounds for use in promoting sales

to China would embarrass the conversations in progress in Tokyo for the settlement of the Tientsin controversy.

JOHNSON

893.516/651

*The Ambassador in the United Kingdom (Kennedy) to the
Secretary of State*

No. 3296

LONDON, September 4, 1939.

[Received September 19.]

SIR: I have the honor to refer to the Department's telegraphic instruction No. 479, July [June] 23, 7 p. m. regarding the question of cooperation between British and American banks in China and to transmit herewith a copy of a Foreign Office memorandum which was received by the Embassy on September 1, 1939.

It will be recalled as regards the explanation given by the Foreign Office in paragraph numbered 3 of its memorandum that the British Treasury's explanation reported in the Embassy's 924, June 30, 10 p. m. was countered by the Department's instruction No. 512 [510] of July 7, 7 p. m. However, in all likelihood the lesson has been learned.

Respectfully yours,

For the Ambassador:

HERSCHEL V. JOHNSON
Counselor of Embassy

[Enclosure]

The British Foreign Office to the American Embassy

QUESTION OF COOPERATION BETWEEN BRITISH AND AMERICAN BANKS
IN CHINA

On the 27th June Mr. Herschel Johnson made an oral and informal communication to the effect that in the following three instances British banks did not seem to have acted in conformity with the spirit of cooperation which His Majesty's Government desired to promote between foreign banks in China:—

1. The manner in which the new Chinese exchange stabilisation policy was put into effect on 7th June by the Stabilisation Committee, on which two British banks were represented, had created an unfortunate impression upon the United States banks, which had been endeavouring to cooperate with the exchange control. The United States banks did not quarrel with the decision for a change in the exchange policy, but they learned of it only when one of the foreign banks applied to the Control and was told that no exchange was being sold.

2. Early in March British banks in North China announced their attitude in regard to trade and exchange control measures and then, without having first consulted United States banks, tried to bring pressure to bear on the latter to adopt the same attitude.

3. At Shanghai, notwithstanding the promise of the Manager of the Chartered Bank that British banks would consult United States banks with a view to maintaining a common policy regarding the acceptance of Hua Hsing notes, United States banks were not even informed of the decision of British banks to have nothing to do with the new banks or its notes until the decision became known to the customers of the British banks on the 1st May.

2. The Hong Kong Bank and the Chartered Bank have informed His Majesty's Government that they are always most anxious to cooperate with United States banks.

3. The first point has already been discussed between Mr. Butterworth and the Treasury, and it is hoped that the Embassy are satisfied with the explanations given.

4. As regards the second point, in view of the banks' desire to cooperate as fully as possible, there is no doubt that they regret as much as do His Majesty's Government that any premature announcement should have been made in such a way as to embarrass the American banks. We had understood that there was from the first very full discussion between the foreign bankers. It is of course true that the British banks were very firmly convinced that non-cooperation with the trade and exchange control measures was the only possible policy in view of their pledged support for the Chinese national currency, and of the existence of King's Regulations making Fapi the only legal tender. When, therefore, the Manager of the National City Bank in Tientsin appeared disposed to adopt an attitude of cooperation with the Federal Reserve Bank, his British colleagues did their best to dissuade him.

5. As regards the third point, the British banks felt for the same reasons as had applied in the North that there could be no question of cooperation with the Hua Hsing Bank. There seems, however, to have been some misunderstanding, for the Manager of the Chartered Bank states that he informed Mr. MacKay⁹⁶ of this attitude, and that Mr. MacKay thereupon suggested a conference of the foreign banks. The Manager of the Hong Kong Bank is understood to have opposed this because he felt that British banks could not possibly adopt any other policy.

6. It seems that it is hardly correct to say that the decision of the British banks became known to their customers on the 1st May. No definite announcement was necessary as no notes of the new banks were offered to the British banks nor were they in circulation at that date.

⁹⁶ Of the National City Bank of New York at Shanghai.

893.6359 Wolfram Ore/67

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

No. 176

WASHINGTON, September 12, 1939.

SIR: Reference is made to the Embassy's despatch no. 217 of May 27, 1939, enclosing a translation of a note from the Ministry for Foreign Affairs⁹⁷ in reply to the Embassy's protest against the granting to a foreign firm of an exclusive sales agency for Chinese wolfram ore, and to the Embassy's despatch no. 221 of May 29, 1939, enclosing a further communication from the Foreign Office⁹⁷ in regard to this matter.

The Department is of the opinion that for the time being no acknowledgment should be made of the Foreign Office communications of May 18 and May 24, 1939, but it is felt that developments should be followed closely in order that appropriate action may be taken should the activities of the Peking Syndicate under the terms of its contract with the National Resources Commission prove inimical to American interests. The Department therefore desires that the Embassy report fully and promptly to the Department all pertinent information in this connection which it may be able to obtain and that it instruct the appropriate consular officers in China and Hong Kong similarly to report.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

893.51/6991

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

No. 5004

PARIS, September 13, 1939.

[Received October 2.]

SIR: I have the honor to report that I and a member of my staff had several conversations, on his initiative, with Dr. Wellington Koo, Chinese Ambassador to Paris, shortly prior to the outbreak of hostilities. These conversations were largely concerned with Chinese financial difficulties and possible American assistance, and culminated in Dr. Koo's handing to me a memorandum dated August 29. A copy of this memorandum is enclosed.⁹⁸ Dr. Koo informed me that it was based on a cablegram received by him on August 28 from General Chiang Kai-shek, who had discussed the questions treated therein with Dr. Kung.

It will be observed therefrom that the memorandum envisages (1) the purchase of and immediate payment for 200 million ounces of silver for later delivery at a price of \$70,000,000; (2) a new \$50,000,-

⁹⁷ Enclosure not printed.⁹⁸ Not printed.

000 credit of the Import-Export Bank for the purchase of gold in the United States; and (3) a purchase of 50,000 tons of tin from China valued at \$50,000,000. I, of course, gave Dr. Koo no assurance whatsoever that the wishes of the Chinese Government in this connection could be satisfied.

There is also enclosed as of possible interest an earlier memorandum handed to me by Dr. Koo on August 17.⁹⁹

Respectfully yours,

WILLIAM C. BULLITT

893.50A/153 : Telegram

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

CHUNGKING, September 19, 1939—9 a. m.

[Received 1:11 p. m.]

531. Referring to letter of July 27 from Hamilton,⁹⁹ Messrs. Sheahan, Van Patter and Bassi of the Keeshin Freight Lines Incorporated arrived September 17 to investigate transportation problems for the Executive Yuan and make recommendations. The first named will remain 3 months and last two for 1 year. A responsible Chinese official informed me these experts were personally selected by Secretary of the Treasury Morgenthau at the suggestion of K. P. Chen. I infer that the Chinese regard them as liaison officers between the Chinese Government and the Secretary of the Treasury and hoped that their reports will be utilized as the basis for more extended American financial assistance to China. After meeting these men I am inclined to believe that with their professional experience and the personal qualifications they seem to have they will be able to perform valuable services for the Chinese.

JOHNSON

893.50A/153 : Telegram

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

WASHINGTON, September 21, 1939—6 p. m.

177. Your 530 [531], September 19, 9 a. m., fourth sentence. You understand of course that, as stated in Hamilton's letter of July 27,⁹⁹ the Americans in question have no official status vis-à-vis this Government.

Sent to Chungking only.

HULL

⁹⁹ Not printed.

793.94/15483

The Secretary of State to President Roosevelt

[WASHINGTON,] November 1, 1939.

Reference, the call which Dr. W. W. Yen, former Chinese Minister to the United States, is to make on you on November 2, at twelve-thirty, noon.

Dr. Yen will present to you a letter, dated July 20, from Chiang Kai-shek, a copy of which, as supplied for your advance information by the Chinese Ambassador here, is hereunder attached.³ Chiang Kai-shek has asked Dr. Yen to "exchange views with you concerning the general situation in the Far East".

In the letter under reference, Chiang Kai-shek states that the main points of his thought relate to: (1) the upholding of the principles of the Nine Power Treaty, with emphasis upon adoption by this Government of economic measures against Japan; (2) China's need of material assistance; and (3) the European situation in relation to the Far East.

The Department offers comment as follows:

With regard to Chiang Kai-shek's first point, it is believed that the attitude and position of this Government with regard to the question of treaty observance and with regard to the principles which this Government believes should govern relations between and among nations have been made clear in many public statements by high officials of this Government, and that this Government's attitude and position remain unchanged. With reference to the suggested adoption by this Government of economic measures against Japan, it is believed that the whole question of our future commercial relations with Japan must, naturally, depend upon developments. Both the executive and the legislative branches of the Government have been giving consideration to this subject. Suggestions for action by this Government are examined in the light of the traditional policies of the United States and of the current attitude of the American people, and within the framework of the laws of this country. Chiang Kai-shek also suggests that this Government might call a conference either to bring about a settlement of the Far Eastern situation or as a preliminary to the taking of economic measures against Japan. It is believed that until Japan's military leadership shall have become convinced of the necessity of modifying its objectives and altering its methods, action by the Government of the United States directed toward bringing about an adjustment of the Sino-Japanese conflict by diplomatic processes would be inopportune: such an adjustment, if achieved, could only be on a basis which would have the effect of

³ *Ante*, p. 687.

assisting Japan toward acquisition of a legal title to some portion of what the Japanese armies have seized (and are by no means sure of holding) by force. It is believed that the calling at this time of a conference as a preliminary to the taking of economic measures against Japan would have little or no chance of serving a useful purpose, especially in view of the preoccupation of other powers with military operations in Europe and prevailing uncertainties regarding current diplomatic moves and developments.

With regard to Chiang's second point, China's need of material assistance, it is understood that this Government desires to be constructively helpful where it is appropriate and possible for it to act within the framework of the established policies and laws of the United States.

With regard to Chiang's third point, the European situation in relation to the Far East, it is to be noted that Chiang's letter was written before the outbreak of war in Europe. After the war began, the Chinese Government appeared for some time to be apprehensive lest the foreign relations of Great Britain and France, and possibly developments between the Soviet Union and Japan, might assume an orientation unfavorable to China. On September 5, the American Ambassador to China called on Chiang Kai-shek⁴ and communicated to him, under instruction from the Department, a statement that we had no indication of any material developments which would seem to make warrantable the apprehensions of which Chiang had given an intimation. This Government has constantly exchanged with the British and the French Governments information in regard to the Far Eastern situation; our attitude and position in regard to features of that situation have on numerous occasions been made known to those Governments; and it is believed that our views are clearly understood by them. During recent weeks various developments in China have given the Chinese Government renewed confidence in the capacity of China to resist; developments in relations of other countries have tended to allay the Chinese Government's apprehensions referred to above; and Chiang Kai-shek has repeatedly affirmed that China has no intention of making peace on the basis of Japanese terms as currently (and more or less vaguely) outlined by Japanese spokesmen or agents.

C[ORDELL] H[ULL]

⁴ See telegram No. 519, September 6, 9 a. m., from the Ambassador in China, p. 233.

611.939/206 : Telegram

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

WASHINGTON, November 4, 1939—3 p. m.

217. Your 574, October 29, 11 a. m., and 575, October 30, 9 a. m.,⁵ shipment of bristles from Chungking. The Department agrees that this Government should not enter objection to any reasonable measures in control of trade taken by the Chinese Government to meet necessities of the existing emergency situation. However, regardless of the accuracy of the information supplied the Embassy, it would appear that in the present case American companies are suffering from unreasonable restrictions upon their right to purchase goods in China and export them to this country. With particular reference to the suggestions contained in paragraph 5 of your 575, the Department is of the opinion that the most appropriate method of presenting the difficulties experienced by American companies in their efforts to purchase and to export bristles is through the Embassy at Chungking. The Department therefore desires that you approach the Chinese Foreign Office in such manner as you deem appropriate and request that the Chinese Government take immediate steps to remove the unreasonable obstacles which impede the conduct of legitimate business. You may also point out in this connection the losses which this situation is causing the Chinese Government. If appropriate occasion offers you are also authorized to take this matter up informally with other Chinese officials who might be in position to take effective action toward amelioration of the situation.

Bearing in mind the consideration presented in the last sentence of your 575, the Department suggests that in your approaches you avoid raising or discussing the causes which have brought about this interference with American business in China, and that you emphasize that, interested American firms in this country having brought to the Department's attention the existence of such interference, this Government is interested in the prompt removal of the interference and looks to the Chinese Government to take immediate and effective action to this end.

Sent to Chungking only.

HULL

793.94/15483

*President Roosevelt to Generalissimo Chiang Kai-shek*⁶

WASHINGTON, November 10, 1939.

MY DEAR GENERAL CHIANG: I acknowledge the receipt of your letter of July 20, 1939, which was delivered to me on November 3 by your

⁵ Neither printed.

⁶ Original transmitted by the Department to the Embassy in China for delivery.

distinguished countryman, Dr. W. W. Yen, who was at one time Chinese Minister to the United States.

I greatly appreciate receiving through your letter and through Dr. Yen an expression of your views in regard to various aspects of the situations in the Far East and in Europe. As the situations have changed in important respects since your letter was written, especially by reason of the outbreak of hostilities in Europe, and as Ambassador Johnson called upon you on September 5 and, under instruction, discussed various questions bearing upon those which you mention, I shall not attempt to comment in detail on the views expressed in your letter.

I assure you that, as stated to you by Ambassador Johnson, the fundamental and traditional foreign policy of the United States is unchanged. Our attitude and position in regard to the situation and problems in the Far East have on numerous occasions been made known to various of the other governments concerned.

I have had several pleasant conversations with the present Chinese Ambassador, Dr. Hu Shih. Officials of the Department of State are at all times accessible to him, and the agreeable relations which he maintains in Washington provide continuous opportunity for helpful exchanges of views in regard to all aspects of the situation in the Far East, which situation continues to receive the closest attention of a number of officials of this Government including myself.

I have greatly enjoyed meeting and talking with Dr. Yen.

Very sincerely yours,

[FRANKLIN D. ROOSEVELT]

793.94/15483

*President Roosevelt to the President of the Chinese Executive Yuan (Kung)*¹

WASHINGTON, November 10, 1939.

MY DEAR DR. KUNG: I have received and I appreciate the kind remarks contained in your letter of August 17, 1939, which was presented by Dr. W. W. Yen with whom I had a pleasant conversation on November 3.

I was gratified to note in your letter the statements of appreciation of the position and attitude of this Government. I need not reaffirm at length that we are giving the closest attention to developments in the Far East and that the attitude and policy of this Government remain unchanged.

With kind personal regards, I am

Very sincerely yours,

[FRANKLIN D. ROOSEVELT]

¹ Original transmitted by the Department to the Embassy in China for delivery.

793.94/15518 : Telegram

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

PARIS, November 30, 1939—3 p. m.

[Received 4:08 p. m.]

2866. I discussed with Mandel⁸ last night the situation in China. He said that he was intensely disturbed by the Japanese capture of the suburbs of Nanning. He stated that the Japanese advance had destroyed the possibility of continuing shipments of supplies by truck which has been going from Indo-China to Nanning over the new road.

Aside from the serious physical difficulties which the cutting of this route would impose on the Chinese Government he felt that the loss of the positions around Nanning indicated much greater feebleness on the Chinese side than he had thought existed. Just previous to the Japanese advance on Nanning he had received from China what appeared to be authoritative information to the effect that the Chinese Government was absolutely confident of its ability to maintain the Chinese military positions protecting the road from Indo-China to Nanning.

He had as yet no adequate explanation for the Chinese collapse in the Nanning region and thought that it might have been due to treachery. If so the indication of Chinese weakness would be even more serious since his latest information indicated that Chiang Kai Shek had had an unusual degree of confidence in the military leaders in the Nanning District. Since Mandel has been the chief advocate of support to the Chinese Government and since he is now doubtful about Chinese resistance I feel that the questions referred to in my No. 2845, November 28, 5 p. m.,⁹ may in the near future become even more important.

BULLITT

793.94/15517 : Telegram

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

WASHINGTON, December 2, 1939—4 p. m.

1475. Your 2866, November 30, 3 p. m. The Department is repeating to you Chungking's 614, November 29, 9 a. m.¹⁰

While the loss of Nanning obviously may be a serious blow to China's transport system, reports that the Chinese are planning a counter-attack and that the Japanese may encounter difficulty in keeping open their lines of communication with the coast indicate that it is as yet too early to assume that the Japanese will be successful in holding Nanning.

⁸ Georges Mandel, French Minister of Colonies.

⁹ *Ante*, p. 86.

¹⁰ *Ante*, p. 326.

Even if the Japanese should continue to occupy Nanning, we do not regard that loss as disastrous to the Chinese. In the southwest there remain open two important external channels of supply (the Burma road and the Tonkin-Yunnan Railway); also, a main interior route (the highway from Yunnanfu to Chungking) remains open; and a new highway (Yunnanfu to Luchow, Szechwan) is about to be opened. It would accordingly seem that the loss of the Nanning route should not cause a cessation of transportation of supplies. It is possible that an important consideration in connection with the capture of Nanning is that the advance of Japanese lines to that point may facilitate Japanese air attacks upon other interior transportation routes. The extent to which this factor may disrupt the transportation of supplies is, of course, a matter for speculation. It is our impression, however, that Japanese bombing operations in the past directed against routes of communication have been signally unproductive as, for example, in the case of the Canton-Hankow Railway.

HULL

893.51/7019

*Generalissimo Chiang Kai-shek to President Roosevelt*¹¹

[CHUNGKING,] December 19, 1939.

I am most grateful to you for receiving Dr. W. W. Yen last month. As you no doubt understand the great difficulties of our financial situation, I once more venture to express the hope that your Government will before long render to China some further financial assistance. Naturally, I cannot help hoping that it may be possible for the new financial help from the United States to include a cash loan which may enable us to strengthen our national currency. But I assure you, whatever you can do to help us, will be forever remembered by the Chinese Nation.

CHIANG CHUNG-CHENG

793.94/15603

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

No. 413

CHUNGKING, December 27, 1939.

[Received January 15, 1940.]

SIR: I have the honor to state that on December 26, 1939, I held an informal conversation with M. Henri Cosme, the French Ambassador. The following is a summary.

¹¹ Translation of telegram forwarded by the Chinese Embassy to President Roosevelt; transmitted to the Department by President Roosevelt on December 26.

We agreed that the Chinese authorities are optimistic as to the outcome of the hostilities with Japan to a degree hard for foreigner observers to justify. I suggested that perhaps this optimism was based on a belief that Japan was at the point of exhaustion. M. Cosme inclined more to the view that it was occasioned by (1) the victory over the Japanese at Changsha during the summer, (2) support given by the United States, as by the denunciation of the Treaty of 1911, or expected from the United States in the future, and (3) support given by the Soviet Union.

The Ambassador remarked that the Chinese seemed to believe that by advancing to and capturing Nanning in Kwangsi Province at the end of November, the Japanese had laid themselves open to such a reverse as occurred at Changsha; he thought the Chinese were confident that they would repeat the Changsha performance. He himself felt that the Chinese had exhibited an amazing weakness in permitting the Japanese to capture Nanning, and according to rumor, Lungchow, twelve miles from the Indo-China frontier, so easily. In regard to assistance from the Soviet Union, he said he had authentic information that in the months September to November, inclusive, thirty-three thousand tons of war materials had arrived in Chengtu in Russian trucks and that between two hundred and two hundred and fifty trucks arrived daily; he said that a strong Russian air force was being organized in northwest China; that there were fifty air establishments in the vicinity of Chengtu, capital of Szechuan; and that there were at least one thousand Russian technicians in the Chungking-Chengtu area, assisting the Chinese as advisers and in other capacities. I felt dubious of the accuracy of these figures, but having no proof I did not question them.

The Ambassador said that he had long ago warned the Chinese Government that if the Chinese allowed Japanese forces to reach the vicinity of the Indo-China border certain aspects of Chinese-French relations, such as the transportation of materials through Indo-China, necessarily could not be the same as before, and he had urged that they prevent Japanese forces from so doing. He pointed out that all road and rail communications into China as far as the Burma Highway were now threatened by the Japanese and that transportation over the latter route probably did not exceed 1,500 tons per month.

In the light of this situation we debated whether the recovery of the Nanning motor route was not vitally essential to the success of China's resistance to Japan. M. Cosme observed that if all import routes from the south were cut off, China would be dependent on the route through Chinese Turkestan and Russia for foreign supplies, and for exports with which to obtain foreign exchange. In view of the seeming seriousness of the situation the apparent lack of anxiety of the

Chinese authorities over the results of the struggle for the Nanning route was hard to understand.

I suggested as a possible explanation of this attitude a belief on the part of the Chinese that China had no vital spot, and that even if all contact with foreign nations were to be prevented, China still could oppose effective resistance to Japanese domination for an indefinite period. I added that if China's foreign communications were limited to the route through Russia or were completely cut, France, Great Britain and the United States would find it impossible to influence the outcome of the struggle and hence the fate of their own interests in China, except through some form of direct pressure on Japan. Unless such direct pressure were applied the Chinese would necessarily have to work out their destiny without regard to the assistance, wishes or interests of these three nations. From the Chinese standpoint it might be considered that the recovery of the southern transportation routes was a vital matter for Occidental relations with China, but not necessarily a vital issue in the outcome of China's resistance to Japanese domination.

Respectfully yours,

For the Ambassador :
WILLYS R. PECK

893.6359 Wolfram Ore/71

The Consul General at Hong Kong (Southard) to the Secretary of State

No. 577

HONG KONG, December 28, 1939.
[Received January 24, 1940.]

SIR: I have the honor to refer to the Department's instruction No. 176, of September 12, 1939, to the American Embassy in Chungking in regard to the granting of an exclusive sales agency for Chinese wolfram ore to the Pekin Syndicate, Ltd., a British firm, and to give certain information obtained in Hong Kong regarding export sales of this product.

The Foreign Trade Office of the Chinese National Resources Commission situated in Hong Kong which has general charge of sales in behalf of the Chinese Government of all metals exported from China including tin, wolfram, antimony, etc., states that the Pekin Syndicate is acting as a sales agency only in regard to wolfram produced in Kiangsi, Hunan and Kwangtung and not for production in Kwangsi and Yunnan, for which the mentioned office in Hong Kong acts exclusively. The Foreign Trade Office of the National Resources Commission states that it authorizes the minimum price at which all sales of wolfram may be made including those through the Pekin

Syndicate, and that the latter is therefore in no sense a monopoly since it controls neither the supply nor the price. The National Resources Commission receives orders directly from New York buyers, executes some of them itself and routes some to the Peking Syndicate for shipment from the area for which the latter operates. It was further stated by the director of the Hong Kong office of the National Resources Commission that since the outbreak of the European war, New York has been the center of the world market for wolfram; also that sales from China to Germany have been discontinued. When asked whether it is not possible for them to ship to Germany via the Soviet Union the director stated that such a procedure would cause them "far too much trouble" and had been discontinued. He further expressed the opinion that Germany had adequate reserve supplies for the present.

An American metal broker in Hong Kong who usually is reliably informed states that New York buyers work regularly with the National Resources Commission and can get supplies regardless of the Peking Syndicate. From the view point of continuance of United States supplies, the area for which the Peking Syndicate acts as sales agent as well as its nationality are both, in his opinion, immaterial.

Respectfully yours,

ADDISON E. SOUTHARD

893.51/7019 : Telegram

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

WASHINGTON, December 29, 1939—7 p. m.

245. The Department refers to your despatch no. 180, April 21, 1939,¹² and requests that you communicate the following message as from the person mentioned in the third line of the first paragraph to the first person mentioned in the fourth line of the same paragraph:¹³

"I have received your telegram of December 19 and wish to assure you that officials of this Government continue to desire to be constructively helpful whenever appropriate and practicable and that we are continuing to give close attention to all aspects of the situation in the Far East."

Please report by naval radio when the message has been delivered.
Sent to Chungking only.

HULL

¹² Not printed.

¹³ President Roosevelt's message was delivered to Generalissimo Chiang Kai-shek on January 2, 1940.

PROPOSAL FOR DISSOLUTION OF THE CHINA CONSORTIUM;¹⁴ DECISION TO CONTINUE ITS EXISTENCE

893.51/6807

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 13, 1939.

At Mr. Lamont's¹⁵ request, I had a conversation with Mr. Lamont last evening at the Union Station, Washington, D. C. One of the subjects which Mr. Lamont wished to discuss was that of the future of the China Consortium.

Mr. Lamont began with a reference to various conversations which have been held between him and me in past years on the subject of the China Consortium. He referred especially to a question which has been raised by member banks of the American Group, during recent years, whether any useful purpose is being served by keeping the Consortium alive and particularly whether the American Group should continue its membership. He said that the latter of these questions has been raised again, rather insistently, by some of the members. He said that sometime ago the Chase Bank had withdrawn and that within the last few days Kuhn, Loeb and Company had given notice of withdrawal. He said that there was a certain amount of what seemed to be useless expenditure involved; that J. P. Morgan and Company no longer had a direct interest in the question of possible future business for the Consortium; and that J. P. Morgan and Company did not feel like trying to "carry the ball" all by itself. He mentioned the conversation which he had had a few days ago with Mr. Welles¹⁶ and inquired whether Mr. Welles had informed me thereof.

I replied that Mr. Welles had informed me and Mr. Hamilton¹⁷ of the conversation under reference, and that we had discussed the matter briefly.

Mr. Lamont asked whether I could tell him how we felt about the matter and/or what might be my own opinion.

I replied that we were inclined—I in particular—to view the matter in a light somewhat similar to that in which we had viewed over a considerable period of time the question and problem of withdrawing or reducing in number the American armed forces stationed in north China. Referring to the expression of a benevolent attitude toward the Consortium, in principle, of the present Adminis-

¹⁴ For organization of the China Consortium, see *Foreign Relations*, 1920, vol. I, pp. 497 ff.

¹⁵ Thomas W. Lamont, of J. P. Morgan and Company, Representative of the American Group of the China Consortium.

¹⁶ Sumner Welles, Under Secretary of State.

¹⁷ Maxwell M. Hamilton, Chief of the Division of Far Eastern Affairs.

tration, of which I had informed Mr. Lamont in 1933 or 1934,¹⁸ I said that we realized that the unfolding of events in the Far East had made ever more remote the likelihood of there developing a situation in which practical use might be made of the Consortium in service of general interests; that we certainly would not feel warranted in strongly urging that the Consortium be kept alive; but that we felt that the opportune moment for an announcement of its dissolution or of American withdrawal from it was not at hand, in fact that the present moment would be somewhat inopportune.

Mr. Lamont then asked why we would regard the present moment as inopportune. He remarked that the Chinese had always been opposed to the Consortium. I replied that there were a number of things to which the Chinese had over a long period been opposed but the existence of which at the present time is at the present time gratifying to them, and to which they now cling. I said that dissolution of the Consortium or American withdrawal from it at this time would probably be viewed with regret by the Chinese and with gratification by the Japanese. Mr. Lamont said that he could not help doubting this, at least as regards the Japanese: the Japanese, he said, have been most insistent on keeping the Consortium alive and have entertained hopes that it might be of assistance in connection with their plans for financing in relation to China. He personally would not wish to hurt the Chinese and would not wish to help the Japanese at this time; he had told the Japanese repeatedly and emphatically that American finance would do nothing to help them; but he was sure that the Japanese would regret rather than be pleased over dissolution of the Consortium. I then said that it might be that we were mistaken in our estimate of what would be the effects on the Chinese and the Japanese respectively; that I had informed him of our first reaction; that I would report the view which he had expressed; and that we would give the matter further consideration.

Mr. Lamont asked when Ambassador Johnson¹⁹ would be present, and I informed him that Johnson was expected to land in New York on January 17. Mr. Lamont said that there was, of course, no great urgency about the question which he had raised; that we doubtless would wish to talk it over with Mr. Johnson; that he, Mr. Lamont, would be back in New York in a few days; and that he would be glad to hear from me further on the subject at our convenience.

In the course of the conversation, I asked Mr. Lamont whether their membership in the Consortium was costing the members of the American Group any large amount of money. He replied: "More than we can afford to pay." Upon my pressing mildly for possible particulars, Mr. Lamont mentioned a salary which had been paid to

¹⁸ See memorandum of June 18, 1934, *Foreign Relations*, 1934, vol. III, p. 393.

¹⁹ Nelson Trusler Johnson, Ambassador in China.

Mr. Charles R. Bennett²⁰ over a period of years but which has now been discontinued, and a fee which is paid to the Hong Kong and Shanghai Bank. He further said that he did not know just what service the Hong Kong and Shanghai Bank rendered by way of earning the fee. I suggested somewhat jocularly that it might perhaps be a warrantable step of economy to discontinue the paying of a fee to the Hong Kong and Shanghai Bank. Mr. Lamont indicated approval of the suggestion.

At a later point in the conversation, Mr. Lamont said that there might come a point when the remaining members of the American Group would feel it absolutely necessary to give notice of termination of the Group membership in the Consortium. I inquired whether there would be any need for making any public announcement; whether such action might not take place more or less by a process of default and without any special (at least without public) notification. I referred to the fact that a year or so ago the British Group had indicated, through the British Government, that it had in mind the giving of a notification, but that apparently nothing further had happened. Mr. Lamont made no express reply to this inquiry and observation except to say that plans which British financiers had had in mind at that time have not worked out.

We parted with the understanding that further consideration would be given here to the matter and further communication would be had by us with Mr. Lamont on the subject.

S[TANLEY] K. H[ORNBECK]

893.51/6780 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, January 19, 1939—6 p. m.

[Received January 19—3:51 p. m.]

74. The Embassy has learned from City sources under conditions of strict confidence that the announced intention of the American Group to withdraw from the Chinese Consortium is causing great resentment. The present time is considered particularly inopportune for this, a development following as it would on the heels of the American and British Open Door notes to Japan²¹ and when the question of servicing the maritime customs loans is still under discussion. Sir Charles Addis,²² who is distressed at the prospect, unfortunately has

²⁰ Representative in China of the American Group of the China Consortium.

²¹ For text of the American note dated December 30, 1938, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 820.

²² Representative of the British Group of the China Consortium.

to sail tomorrow on a 2 months' health cruise but he has already been in touch with the Foreign Office and the Treasury.

The City bankers concerned not only consider that such an action would in the present circumstances be of benefit to Japan and react adversely on the interests of Great Britain and the United States but are also annoyed [that] entire cause should be of such a trifling nature, namely, the unwillingness of Kuhn, Loeb and Company to pay its share of a £750 annual charge. In this connection the Hong Kong [and] Shanghai Bank finds it impossible under existing arrangements to permit a non-payment without apprising the other members and groups of the fact, as it has percolated through to the British banking interests concerned [that] the Department of State's attitude is represented as being mildly opposed to the withdrawal of the American Group.

JOHNSON

893.51/6808

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 20, 1939.

Reference, Mr. Hornbeck's memorandum of conversation with Mr. Lamont, January 13; and London's telegram 74, January 19, 6 p. m.

After my conversation with Mr. Lamont of January 13, I asked the Far Eastern Division to review the subject of the China Consortium as it has come up during the present Administration and to consider further the question of the Department's attitude in the light of Mr. Lamont's latest approach on the subject. Upon receipt this morning of London's 74, January 19, 6 p. m., I conferred with Mr. Hamilton, Mr. Mackay²³ and Mr. Adams,²⁴ and, on the basis of a community of view among the four of us (it being impossible throughout the morning to confer with the Under Secretary or the Secretary), I called Mr. Lamont on the telephone. The conversation proceeded as follows:

I inquired concerning Mr. Lamont's recent trip to Florida and Mr. Lamont stated that he had had a thoroughly enjoyable holiday. I remarked that I hoped and trusted that he was in a very good humor. He indicated that he was. I then said that I wanted to inform him confidentially of information which we had from a source which I would not name, in London. I said that our informant stated that the "announced intention of the American Group to withdraw from the Chinese Consortium" was being received very unfavorably (in London); that "the present time" is regarded there as "particularly

²³ Raymond C. Mackay, Assistant Chief of the Far Eastern Division.

²⁴ Walter A. Adams of the same Division.

inopportune" for such a development; I read, in paraphrase, most of the first page of the telegram under reference above, through the words "750 annual charge"; and I read the last two lines, "Department of State's attitude is represented as being mildly opposed to the withdrawing of the American Group".

I then said that I was giving Mr. Lamont this information in confidence and on my own responsibility. I said that after our conversation on January 13 I had reported fully to the Far Eastern Division and the Under Secretary; that I had not since then discussed the matter further with the Under Secretary, but that I had discussed it fully with officers of the Far Eastern Division. I said that officers of the Far Eastern Division shared the view which had been that of the Under Secretary, Mr. Hamilton and myself when Mr. Lamont had first raised the question with Mr. Welles some days ago, namely, that dissolution of the Consortium Agreement or withdrawal of the American Group from the Consortium at this time would be regarded unfavorably by the Chinese and probably favorably by the Japanese, which view I had mentioned in my conversation of January 13 with Mr. Lamont; and that it was interesting to me to know that the "city" reaction in London, as reported, was that such an action would in the present circumstances be of benefit to Japan and react adversely on the interests of Great Britain and the United States. I said that a point had been raised by one of my associates which had not been covered in previous conversations: the associate had pointed out that so long as the Consortium Agreement²⁵ is in effect, banks members of the various Groups will be restrained from giving financial assistance to Chinese puppet governments, whereas, if the Consortium is dissolved or any Group withdraws from it, the restraining influence of a Consortium Agreement would disappear and some bank or banks might choose to do such business.

Mr. Lamont expressed himself as being annoyed over this approach by "the British Foreign Office"; he was particularly critical of the express mention of a particular bank (Kuhn, Loeb and Company) and of the question of the "750 annual charge". I explained that our information had not come from the British Foreign Office or from our Embassy in London; I stated that it had come to us in confidence from a source which, as I had stated, I would not disclose; and that I was giving it to Mr. Lamont in confidence and for his confidential information; I mentioned the fact that he himself had mentioned to me the matter of the one bank (by name) and the matter of the service charge which the Groups had been paying to the Hong Kong and Shanghai Bank over a period of many years. I said that there are two points which we here especially noted in the information

²⁵ Signed at New York, October 15, 1920, by British, French, Japanese, and American banking groups, *Foreign Relations*, 1920, vol. I, p. 576.

given us, namely, first, the mention of an "announced intention of the American Group to withdraw" and, second, the statement that the Department of State's attitude was represented as being "mildly opposed to the withdrawal of the American Group."

Mr. Lamont then went on in a milder and thoroughly friendly tone to the effect that there has been no announcement of an intention on the part of the American Group to withdraw; he said that after his return from Florida last Monday he had telephoned to London; that he had said that the American Group was considering withdrawing; that he had indicated—in line with the exchange of views which had taken place between himself and me on January 13—that the American Group perceived no reason why it should continue to pay a fee to the Hong Kong and Shanghai Bank on the theory of services rendered when no services were any longer being rendered; and that he had stated that, in fairness to all concerned, he should let his London associates know that the American Government looked with disfavor—he said that he had not said "mildly opposed"—upon the idea of a withdrawal by the American Group. I said that I was very glad to have this authoritative account, and I thanked Mr. Lamont for his courtesy in giving me it. Mr. Lamont went on to say that the matter was still under consideration on the part of the members of the American Group and that a meeting would be held by them on Monday next at which it would be further considered. I said that I was very glad that I had taken occasion to give him the information which had come to us and that he had given me the information conveyed in his statement.

Comment: Putting one, two and three together, I derive the impression that Mr. Lamont is not unwilling to continue the membership of the American Group in the Consortium; that Mr. Lamont has informed the British Group that the American Group expects to discontinue payment of the fee to the Hong Kong and Shanghai Bank; that the "city source" from which the information given our Embassy in London originated gave the Embassy a somewhat distorted account; that if the British really are anxious to have the Consortium remain in existence and to have the American Group not withdraw, they will probably "take" the discontinuance of payments to the Hong Kong and Shanghai Bank by the American Group; and that, with a little official urging on our part, which can be done informally, the American Group will be willing to let the matter rest there, the Consortium continuing in existence and the American membership therein continuing. I do feel, however, that we should give a little further indication of a hope on the Department's part that no action will be taken at this time toward dissolution of the Consortium or termination of the American Group's membership therein.

STANLEY K. HORNBECK

893.51/6809

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 21, 1939.

Reference, my memorandum of conversation with Mr. Lamont of January 20.

Having taken up with the Under Secretary, Mr. Welles, the matters covered in my memorandum of January 20, and under instruction from Mr. Welles, I asked for Mr. Lamont on the telephone. Mr. Lamont was away from his office and I spoke with Mr. Arthur Anderson.

I inquired whether Mr. Anderson was familiar with the recent developments and recent communications on the subject of the China Consortium. Mr. Anderson replied that he was. I then referred to the conversation held between Mr. Lamont and myself yesterday and said that I had brought the whole matter again to Mr. Welles' attention and that I was prepared to give, under instruction, our official opinion, of which I would request that Mr. Anderson inform Mr. Lamont before a certain meeting on Monday: our official opinion is that the present would be an inopportune moment, an especially inopportune moment, for taking steps, which would become a matter more or less of public knowledge, toward dissolution of the Consortium or withdrawal of the membership of the American Group. I said that I had gained the impression from what Mr. Lamont had said yesterday that Mr. Lamont and others who have been especially interested, in the American Group, were not so especially intent upon dissolution of the Consortium or withdrawal of the American Group as upon effecting certain changes in the procedural arrangements between the member Groups.

Mr. Anderson replied that he regretted Mr. Lamont's absence; he would impart to Mr. Lamont early on Monday morning the message which I had given him; and it was a fact that the members of the American Group had become tired of paying fees when no business was being done and no services rendered.

I called attention to the fact that the information which I had given Mr. Lamont had been given confidentially and for his confidential information, and I expressed the hope that the conversations which we had had would be helpful toward the conservation of the interests of all concerned. Mr. Anderson thanked me and repeated the assurance that he would inform Mr. Lamont before the meeting on Monday.

STANLEY K. HORNBECK

893.51/6810

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 23, 1939.

Mr. Lamont called me on the telephone from New York.

The long and the short of the somewhat extended conversation was: Mr. Lamont made clear that the committee which acts for the American Group in the China Consortium no longer wishes to pay the annual fee of £750 to the Hong Kong and Shanghai Bank, of which mention has been made in previous conversations (see memoranda²⁶), but the committee is willing to revert to the annual fee of £25 paid in connection with services rendered in relation to the Hukuang bonds; and I assured Mr. Lamont that so far as I could perceive there could be no suggestion of any objection here to a notification by the committee to the Hong Kong and Shanghai Bank to that effect.

STANLEY K. HORNBECK

893.51/6811

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] January 25, 1939.

Mr. Lamont called me on the telephone from New York and asked whether he might read to me the text of a telegram which the responsible committee of the American Group in the China Consortium had prepared and were contemplating sending to London. Mr. Lamont then read a somewhat lengthy text of six numbered paragraphs. The long and the short of the statement was that the committee were stating that the American Group will continue its membership in the Consortium, until further notice, and gives notification, with reasons, of its unwillingness to continue payment of the annual fee of £750 to the Hong Kong and Shanghai Bank (see previous memoranda). Mr. Lamont said that he would welcome any comments which I might feel moved to make. I said that there was nothing in what I had heard which would seem to me to call for any adverse or destructive criticism; that I thought that the position taken by the committee was fully warranted; and that the only suggestion which I felt moved to make was that the statement of reasons might perhaps to advantage be made more brief. Mr. Lamont replied that the committee felt that the "people over there" seemed to have difficulty in understanding the American Group's position, that the committee wanted to have

²⁶ *Supra.*

everything on a friendly basis, etc.; and that he would give consideration to the suggestion which I had offered. I ventured the opinion that the "people over there" might perhaps be understanding better than they admitted. Mr. Lamont expressed concurrence in that view.

STANLEY K. HORNBECK

893.51/6829

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government have been informed by the British Banking Group on the China Consortium that the American Group have asked to be released from their China consortium obligations and have also asked that the twelve months' notice should be waived. This proposal is put forward by the American Group for technical reasons but the State Department is aware from the exchange of notes in 1937²⁷ that His Majesty's Government felt that the consortium in its present form should be dissolved and replaced by some broader form of international cooperation acceptable to the Chinese Government and appropriate to existing conditions. Hostilities in China have, however, altered the situation since the exchange of notes in 1937 and it would not be possible, so long as hostilities continue, to bring into being a new instrument to replace the consortium. Two alternatives are now possible: (a) the existing arrangement might be allowed to continue for the present on the grounds that the dissolution of the consortium now would make more difficult its reconstruction on a broader basis at a later stage with the support of the Chinese Government; (b) the alternative would be that the British and American Groups should jointly propose the immediate dissolution of the consortium and the waiver of the twelve months' notice; in favour of this alternative it might be argued that it is unlikely that the goodwill of the Chinese Government could be obtained for any revision of the existing arrangement and it is therefore advisable to clear away the existing arrangement before attempting to negotiate a fresh combination.

Whichever alternative is adopted it is clearly desirable that His Majesty's Government and United States Government should act in concert and that the American Group should not be released while the other groups are still bound by the consortium agreement.

His Majesty's Government would be glad to know in the light of the above considerations which of the two alternative policies the United States Government think it desirable to adopt. If they are in favour of dissolving the consortium now His Majesty's Government

²⁷ For the Department's attitude, see its telegram No. 82, March 12, 1937, 6 p. m., *Foreign Relations*, 1937, vol. iv, p. 576.

would agree for their part; and they would propose that the British and American Groups should keep in close contact with one another in regard to any proposals for new commercial financing in China and His Majesty's Government would be prepared to consider a fresh attempt to secure an international arrangement with the Chinese Government when circumstances permit.

WASHINGTON, February 10, 1939.

893.51/6829

*The Department of State to the British Embassy*²⁸

AIDE-MÉMOIRE

The Department refers to the British Embassy's *aide-mémoire* of February 10 on the subject of the China Consortium.

It is the understanding of the American Government that the managing committee of the American Group in the China Consortium informed the British Group some time ago that it would refrain until further notice from expressing on the part of the American Group intention of withdrawal from the Consortium, and that, at the same time, the said committee explained in detail its reasoning in support of a suggestion made by it that certain administrative readjustments be made in the financial mechanism prevailing between and among the member Groups.

In the opinion of the American Government, there should be no need for discussion at this moment of a possible dissolution of the Consortium, and, in the light of the facts as understood by the Department, it would seem that further consideration of this question should be deferred.

WASHINGTON, February 16, 1939.

893.51/6945 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, July 24, 1939—5 p. m.

[Received July 24—1:10 p. m.]

1054. My 1024, July 19, 7 p. m.²⁹ The following informal letter has been received from the British Treasury.

"It has been suggested to me that it would be right that I should let you know that there is nothing in the arrangements for export credit

²⁸ Notation by the Adviser on Political Relations: "Read to and indorsed by Mr. Thomas W. Lamont. SKH II-14-'39."

²⁹ *Ante*, p. 686.

guarantees to China which conflicts with the Consortium Agreement since there is no question of any issue for public subscription. It might be argued that the agreement is for all practical purposes dead and buried; but as you will see the export credit guarantee arrangements do not raise this particular issue."

JOHNSON

893.51/6981

Mr. Thomas W. Lamont, of J. P. Morgan & Co., to the Adviser on Political Relations (Hornbeck)

NEW YORK, July 31, 1939.

DEAR DR. HORNBECK: Confirming my telephone conversation with you today, I attach herewith copy of the memorandum filed a week ago with the Hongkong Bank in London, to be submitted to the Head Office at Hongkong. I think that probably you and I don't see quite eye to eye on this matter of the dissolution of the Consortium, but I don't see what useful purpose the maintenance of it serves. However, we shall see what we shall see.

Hoping that you will have a fine holiday, I am

Yours sincerely,

T. W. LAMONT

[Enclosure]

Memorandum by the Chairman of the American Group, China Consortium (Lamont)

[NEW YORK,] 25 July 1939.

1. The situation of the American Group in the China Consortium was radically and completely changed through the passage of the Federal Banking Act 1933³⁰ which prohibited American bankers of deposit from issuing or dealing in securities. Inasmuch as the American Group is made up almost entirely of banks of deposit, one will readily see that it is quite impossible (even if conditions in China were materially altered for the better) for the Group ever to function in the issuance of Chinese securities. For the last five years, therefore, there has existed no valid reason for the continued existence of the American Group for while at the time the Act was enacted, six years ago, and even later, there was some little talk of possible modification, now all such prospect has been abandoned. (There has seemed to exist in certain London financial quarters the impression that the so-called Johnson Act [Intergovernmental Debts]³¹ constituted the obstacle in question. That act, which may be temporary,

³⁰ Approved June 16, 1933; 48 Stat. 162.

³¹ Brackets appear in the original; for the Johnson Act, approved April 13, 1934, see 48 Stat. 574.

has no bearing on the situation. The obstacle is the Banking Act which is permanent).

2. In the light of these circumstances and of the situation in China, there has been considerable discussion for the last three years between the British and the American Groups as to the question of dissolution of the Consortium. In fact, the British Group manifestly anticipated such a dissolution in the execution of the Pukow-Siangyang contract for financing, which contract tied this business up to the British Group by the provision that the contract would not become effective until the present Consortium obligations ceased to be binding upon the British Group. The British Foreign Office in point of fact, as our own Department of State informed us a few months ago, expressed itself as seeing no reason for the continuance of the Consortium. The American Department of State however expressed the hope that dissolution might be postponed for the time being, and also that the American Group might see its way clear not to file notice of withdrawal always provided the responsibilities upon it did not prove too onerous. As a matter of fact, although there are nominally 30 members of the American Group it has been impossible to levy upon any of them, except the members of the so-called Managing Committee, the expenses and the fee of the Hongkong & Shanghai Banking Corporation. For one reason or another, even the members of the Managing Committee have fallen away, so that they consist now of only three or four institutions, and Messrs. J. P. Morgan & Co. (who have acted as clearing house without compensation for years for the American Group) are not disposed longer to urge upon their associates the payment of a stated fee as it now stands. Nor is the Morgan firm disposed to take upon its own shoulders the entire onus of such payment.

3. The amount of this fee, £750, for the American Group, seems on its face an inconsiderable matter. Yet under the peculiar circumstances set forth in the foregoing paragraphs the continuance of the American Group in the Consortium depends upon some readjustment of this fee. In connection with this it may be appropriate to recall the fact that up to 1920 the fee charged by the Hongkong & Shanghai Banking Corporation for its clearing services in connection with the Hukuang Railway Loan (the only issue in which the American Group ever participated) was fixed at £25 per annum. Upon the reorganization of the Consortium in 1920 the expectation was that there would almost at once ensue very considerable activity in the functions of the Consortium. In expectation of such activity an increase in the annual payment to £750 for each participant was arranged. This activity has never been realised. Political conditions in China in the almost 20 years following 1920 have gone steadily and rapidly from bad to worse and in the minds of the American

Group there has been for years past no valid reason for the continuance of this fee at its present level. This observation is made with great respect and with full knowledge of the readiness with which the Hongkong & Shanghai Banking Corporation would have gladly fulfilled any special functions attributed to it.

4. The American Group has however until recently allowed this matter to rest as it was, hoping that there might be some favourable development. There has been no such development and in fact now the outlook, in the opinion of the American bankers, is rendered hopeless for many years not only on account of conditions in China but, as has been pointed out in paragraph (1) above, by the completely prohibitory laws of the American Government. During the term of this last 20 years the American Group has up to within a year or two maintained at great expense representation of its own in China. Unlike the other three groups of the Consortium the American Group has had no local institution that could function and the expenses of special representatives, cable exchanges, etc., have, since the Consortium was originally reorganised, been a charge upon the American Group of something like \$500,000. The other Groups have been able, it would appear, to carry on their representation in such a way as to enable the overhead to be largely absorbed in other items of expenses.

5. The American Group, in the light of the circumstances as set forth, propose alternative courses of action. The first would be this:

(a) The dissolution of the Consortium not later than January 1st 1940. As to the fear that in the present state of affairs in the Far East such a dissolution and break-up of so-called partnership would have an unfortunate repercussion in Japan, the view of the American Group is just the opposite. That view is to the effect that politically it would be a very good thing for the Japanese Group and the Japanese Government to realise that under prevailing circumstances the Western banking groups prefer no formal association with them. While the American banking group realises that the Japanese bankers are not responsible for the actions of their Government, nevertheless under prevailing conditions the American bankers would prefer to dissolve partnership with the Japanese bankers. The alternative suggestion is:

(b) If, for reasons of State, it may be deemed important that formal dissolution of the Consortium be not undertaken, then the American Group will be prepared to withhold its own contemplated withdrawal upon the understanding that beginning January 1st 1940 the fee to be paid by the American Group to the Hongkong & Shanghai Banking Corporation should not exceed £200 annually. This suggestion is made purely out of goodwill and in order to avoid the necessity on the part of the American Group to file notice of withdrawal. Any suggested rearrangement should also provide that any group is permitted to withdraw from the Consortium upon 90 days' notice.

6. As to the effect upon the Hongkong & Shanghai Banking Corporation's relations with the other groups under any such arrangement as just suggested, that is not a matter for the American Group to pass upon. The other banking groups are in a position wholly different from that of the American Group. Members of the other Groups have, as heretofore pointed out, active business relations in China which are continuous. The American Group has none with the possible exception of one member, the National City Bank, whose scope of operation is very limited. An even more radical difference, however, rests in the fact that the bankers chiefly composing the American Group are now completely estopped from carrying out any of the original functions designed for the Consortium. And while the amount involved, namely \$750 per annum, may seem small, nevertheless, under existing conditions it is an item sufficient to make some readjustment necessary. Naturally, if its nominal membership is still desired, the American Group would much prefer to see friendly and voluntary readjustment than to give actual notice of withdrawal.

Respectfully submitted,

T[HOMAS] W. L[AMONT]

893.51/6982

Memorandum by the Adviser on Political Relations (Hornbeck) of a Conversation With the Counselor of the British Embassy (Mallet)

[WASHINGTON,] August 2, 1939.

Reference, British Embassy's *aide-mémoire* of February 10, 1939; Department's *aide-mémoire* to the British Embassy of February 16, 1939; and letter from Mr. Thomas Lamont to Mr. Hornbeck of July 31, 1939.

In the light of what is contained in Mr. Lamont's letter under reference above, and after conversation with Mr. Hamilton and authorization by Mr. Welles, I asked Mr. Mallet to see me.

I reminded Mr. Mallet of the *aide-mémoire* which he had handed me on February 10 and the *aide-mémoire* which I had handed him in reply on February 16 relating to the question of the possible dissolution of the China Consortium. I said that the Department would appreciate having at this time an indication of the British Foreign Office's opinion, without consultation of or reference to the interested Banks, whether it would be generally helpful at this time for there to take place—and presumably be publicly known to have taken place—a dissolution of the China Consortium. I said that when we had the Foreign Office's reply to that question we might wish to propound another question. I added that, in the interval, it might be helpful for Mr. Mallet to say to the Foreign Office that, as regards our opinion

here, we do not perceive that at this time dissolution, and public knowledge thereof, of the Consortium would be generally helpful.

Mr. Mallet said that he would make the inquiry at once.

I asked Mr. Hamilton to come in and in Mr. Mallet's presence reviewed the conversation as recorded above. I repeated that we would like to have the Foreign Office opinion independently of banking opinion.

STANLEY K. HORNBECK

893.51/6983

*The British Embassy to the Department of State*³²

While His Majesty's Government in the United Kingdom are of the opinion that dissolution of the China consortium in its existing form will be necessary sooner or later, they appreciate that there is force in view that existing arrangement might be allowed to continue for the present on the ground that immediate dissolution would make more difficult the reconstruction of consortium on a broader basis at a later stage with support of Chinese Government.

The important thing is that in view of the effect on Japanese public opinion, the non-Japanese groups should act together when the time comes, and meanwhile His Majesty's Government are inclined to the view that dissolution of the consortium would not be advantageous.

893.51/6983

*The Department of State to the British Embassy*³³

As the views of our two Governments coincide, that dissolution of the China Consortium at this time would not be advantageous or generally helpful, it is suggested that the British Foreign Office use its influence with the British Group (or the Hong Kong and Shanghai Banking Corporation) to the end that a difference of opinion which has developed between the American Group and the British Group (or the Hong Kong and Shanghai Banking Corporation) over the question of the amount of a service fee be adjusted upon a fair and reasonable basis and be not permitted to become a possible cause or contributory cause leading to a dissolution of the Consortium.

[WASHINGTON,] August 29, 1939.

³² Handed by the Counselor of the British Embassy to the Adviser on Political Relations (Hornbeck) on August 21.

³³ Handed to the Counselor of the British Embassy by the Adviser on Political Relations (Hornbeck) on August 29 as an informal memorandum of an oral statement.

893.51/7017 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, December 20, 1939.

[Received December 20—2:37 p. m.]

2680. For Hornbeck. Butterworth³⁴ had occasion to see the Governor of the Bank of England today and he brought up the question of the Chinese Consortium. Montagu Norman has agreed to look into the matter personally and see what can be done.

JOHNSON

893.51/7017 : Telegram

The Secretary of State to the Chargé in the United Kingdom (Johnson)

WASHINGTON, December 29, 1939—5 p. m.

1692. Your 2680, December 20. American group informs Hornbeck news received of satisfactory settlement. Hornbeck proposes congratulations to Butterworth.

HULL

EFFORTS OF CHINA TO SECURE WAR MATERIAL FROM OTHER COUNTRIES³⁵

894.24/574

The British Embassy to the Department of State

AIDE-MÉMOIRE

Reference is made to the final paragraph of the State Department's *Aide-Mémoire* of the 9th November, 1938³⁶ regarding the steps taken by His Majesty's Government in the United Kingdom towards restricting the export of armaments and the supply of credit facilities to Japan.

Out of eight licences issued by His Majesty's Government, only six licences, to a value of £86,787. 10s., have been used for the export of war material to Japan since the beginning of hostilities. None of these licences were for the export of aircraft. The total value of arms, munitions, and naval stores exported from the United Kingdom to Japan from 1st July, 1937, to 31st October, 1938, including those licenced before the outbreak of hostilities and including sporting arms and ammunition, was £129,107. In certain cases firms have been

³⁴ William W. Butterworth, Jr., Second Secretary of Embassy in the United Kingdom.

³⁵ Continued from *Foreign Relations*, 1938, vol. III, pp. 591-626.

³⁶ *Ibid.*, p. 625.

discouraged from accepting arms orders from Japan although this was not justified by the exigencies of British re-armament.

Although no action has been taken to discourage the export of steel to Japan, the total quantity of iron and steel exports for the first ten months of 1938 was only 6,700 tons, as compared with 39,500 tons in the corresponding period of 1937.

His Majesty's Government understand that since December, 1937, all British financial institutions concerned have been gradually and spontaneously reducing the supply of short-term credit facilities to Japan, and there therefore remains no scope for effective action by His Majesty's Government in this field. Furthermore, even if all their present credit facilities in London were withdrawn, the Japanese could fill the gap by the use of their existing sterling resources, which cannot be prevented in time of peace.

WASHINGTON, January 3, 1939.

893.24/522 : Telegram (part air)

The Chargé in Germany (Gilbert) to the Secretary of State

BERLIN, January 7, 1939—noon.

[Received January 9—8:35 a. m.]

17. In a call which I made yesterday on the new Chinese Ambassador²⁷ he somewhat clarified the statement of the Chargé d'Affaires reported in Embassy's number 700, December 7, noon,²⁸ concerning German munitions shipments to China by saying that while Germany was accepting no new orders old orders were still being filled in somewhat substantial quantities. He added that these shipments were customarily proceeding via French Indo-China.

I told him that I was under the impression that the Chinese Government had delayed his departure for Berlin and had indeed hesitated sending him in view of the withdrawal of the German "military mission" and the continued absence from his post of the German Ambassador to China. He confirmed that such was the case but that it had been finally decided that he come.

Aside from the value of Berlin as a political observation post it was thought he might be able to obtain further munitions and it was hoped an opportunity might occur to take advantage of the desire which still exists among German businessmen for commercial relation with China and also in a more general way of the rather prevalent favorable attitude toward China on the part of the German people.

Incidentally von Schmieden, Chief of the Far Eastern Division of

²⁷ Chen Chieh.

²⁸ Not printed.

the Foreign Office, conversations with whom I reported with some frequency last year, appears to be on some kind of an extended leave from the Foreign Office. I am inclined to believe that this is due to his being out of favor with Ribbentrop³⁹ inasmuch as from my personal relations with him of some standing I discern that he is not fully in sympathy with the Foreign Minister's Far Eastern policy.

GILBERT

893.154/245

*Memorandum by the Ambassador to China (Johnson), Temporarily in the United States*⁴⁰

[WASHINGTON,] January 20, 1939.

In the conclusions set forth on pages 9 to 12 of the attached report⁴¹ there occur the following sentences in reference to the road to Burma:

"That it can and will be completed to this point in time to be of any real value during the present conflict is open to grave doubt."

"The volume of war material which can be transported over this route and the overhead incident thereto is a matter of simple arithmetic which can easily be computed from the basic statistics of mileage and gasoline consumption of our trip alone—and the result is not encouraging."

By way of comment I desire to say that these statements result obviously from a consideration of the length of the road, statistics which we compiled regarding our own consumption of gasoline and the numerous difficulties obviously to be overcome in putting the road into condition for the handling of the amount of heavy traffic necessary to move large quantities of goods in trucks. The present conflict, in my opinion and in the opinion I am sure of Major McHugh, is going to last for a considerable period of time and we did not intend by these statements to convey the idea that the road would be of no service whatever in assisting the Chinese in their resistance. It is our feeling that the road will be of considerable assistance; that this assistance will increase as time goes on and as effort is made to improve the condition of the road and to supply it with the necessary equipment to handle traffic over it. Neither McHugh nor I wish to leave any doubts in the minds of anyone as to the difficulties involved.

N[ELSON] T. J[OHNSON]

³⁹ Joachim von Ribbentrop, German Minister for Foreign Affairs.

⁴⁰ Transmitted to President Roosevelt and to the Embassy in Japan.

⁴¹ Memorandum on "the Burma Road", dated December 31, 1938, by the Assistant Naval Attaché in China (McHugh), who accompanied the Ambassador from Chungking to Burma; not printed.

845C.79693/1 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 2, 1939—2 p. m.

[Received 8:37 p. m.]

69. 1. Embassy is informed that British authorities have granted China National Aviation Corporation exclusive right to establish service between China (Kunming) and Rangoon. Representative of China National Aviation Corporation is leaving Chungking for Kunming today to meet a representative of Imperial Airways to arrange details and plan an exploratory flight to Rangoon which is expected after a few days.

2. French authorities have granted permission to China National Aviation Corporation to establish direct service between Chungking and Hanoi, French Indo-China. Service expected to start as soon as details are arranged with Air France. (At present Eurasia maintains Chungking-Hanoi service via Kunming.)

3. Embassy is confidentially informed that Chinese Government may ask China National Aviation Corporation to establish service between Szechuan and Hami, Sinkiang. Company is at present short of equipment but has ordered two Douglas DC-3's and hopes for early delivery.

4. Repeated to Peiping, Hong Kong, Shanghai, Kunming, Rangoon, Saigon.

PECK

893.77/3194 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 8, 1939—noon.

[Received February 8—11:45 a. m.]

84. The Embassy learns from a reliable source that when the managing director of the Indo-China-Yunnan Railway visited Chungking a few weeks ago he assured officials of the National Government that the present annual inward transportation capacity of the railroad in question is 120,000 tons but declared that arrangements had been made for the purchase of additional cars and locomotives in Europe which would result in the shipping of the line being increased by 30 to 40 percent within a period of from 3 to 6 months. The Embassy is also reliably informed that restrictions on the shipments of goods through French Indo-China to China have been relaxed to some extent, although it appears that little if any arms and munitions are being shipped on this railway at present.

The recent session of the Central Executive Committee is reported to have passed resolutions for improvement of the trucking service

between Yunnanfu and Chungking. In addition to the purchase of trucks in the United States and Indo-China it is reported that steps are to be taken to install service stations and repair shops, inaugurate a driving school for chauffeurs, and institute a system of highway policing to curb reckless driving, et cetera. Another factor—the opening of a new highway from Chungking to Kunming via Luchow (on the Yangtze River about 200 kilometers west of Chungking) in March of this year—will not only shorten the distance between the two cities by 20% but will relieve congestion of the Kweiyang Road.

In addition to the Southwest Transportation Company, a National Government organ under the control of T. L. Soong, which is reported to be operating about 500 trucks between Chungking and Yunnanfu, and exclusive of the Military Affairs Commission which possesses several thousand trucks, it is learned that the Asiatic Petroleum Company and the Standard-Vacuum Oil Company are entering this field in an experimental capacity, the former company with seventeen and the latter with six, 2½ ton trucks for the shipment of petroleum products from Yunnan to Szechuan. If this experiment proves profitable these firms are prepared it is stated greatly to expand the inward service as well as to aid in the outward shipment of local export products.

Repeated to Peiping.

PECK

893.24/537 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 18, 1939—10 a. m.

[Received February 18—7:30 a. m.]

117. Reference paragraph 1 Embassy's No. 84, February 8, noon. The Embassy is informed by a representative of a French munition firm who is now in Chungking that shipments of munitions and arms including guns up to a caliber in 4 inch, all presumably from France, are being imported into China via French Indo-China. According to his statement, shipment is made by truck from Haiphong to Langson on the border and thence into Kwangsi. He stated that these arms and munitions were originally packed in large cases for shipment by rail but that since the French authorities restricted arms shipments on the Yunnan Railway it has become necessary to repack them for motor transport.

The informant also stated it to be his opinion that representations on the part of the United States Government to the French Government would have a very salutary effect in relaxing various restrictive

measures said to be imposed at present on the transshipment of American and other non-French goods through Indo-China.

Repeated to Peiping.

PECK

893.24/539 : Telegram

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

PARIS, February 22, 1939—midnight.

[Received February 23—8:45 a. m.]

341. Mandel, Minister of Colonies, stated to me last night that at the present time there were no restrictions whatsoever on shipments of any sort over the railroad through Indo-China.

BULLITT

711.00111 Armament Control/2099

Memorandum of Conversation, by the Chief of the Division of Controls (Green)

[WASHINGTON,] March 1, 1939.

Mr. Tswen-ling Tsui, First Secretary of the Chinese Embassy, called at my office this morning. He said that he had been directed by his Ambassador to call on me and to communicate to me informally a report which the Embassy had just received from responsible sources in China. The report which he gave me repeated almost verbatim the United Press despatch of February 25 from Tokyo in regard to the alleged employment by the Japanese of a corps of American aircraft engineers.

I told Mr. Tsui that it was my impression that the report was greatly exaggerated. I said that he was aware of the fact that American manufacturers of airplanes had ceased within the last six or eight months to sell planes to Japan. I pointed out that there were, however, contracts entered into before June 1938 by which American manufacturers obligated themselves to sell planes to the Japanese Government or Japanese interests, and that some shipments under these contracts had recently been made. I explained that it was customary when planes were sold abroad for the manufacturer to send to the purchasing country mechanics to assemble the planes and, in some cases, to give some instruction in their operation. I added that I thought that the basis of the report of which he spoke was the presence in Japan of mechanics representing American companies which had shipped planes to Japan in recent months.

Mr. Tsui thanked me for my explanation. It was obvious, however, that he was not satisfied with it. He said that he thought it possible that, in addition to the mechanics of which I had spoken, there had been recently employed by the Japanese American engineers who were brought to that country for the purpose of superintending the manufacture of American types of planes to be manufactured under license.

I said that it was possible that American engineers might now be in Japan for the purpose which he had indicated, but that I had no detailed information in regard to the provisions of contracts which American companies might have made with Japan in connection with the manufacture of planes of American types in that country.

JOSEPH C. GREEN

893.24/545

The Consul at Rangoon (Brady) to the Secretary of State

[Extract]

No. 157

RANGOON, March 2, 1939.

[Received March 25.]

SIR: I have the honor to report that, according to information received here by American oil interests, about 60 percent of the petroleum products obtained by China in the United States under a recent credit, which is understood to be part of the credit of \$25,000,000 granted in December by the Export-Import Bank to the Universal Trading Corporation of New York City, will be delivered at Rangoon for shipment through Burma and over the new highway in Yunnan. The remaining 40 percent will go to Haiphong, Indochina, for transportation over the French railway to Yunnanfu, in the event that railway remains open and the French place no restriction on the shipment of such supplies to the Chinese Government.

It is said that the information received here indicates that the exports from the United States will amount to 45,000,000 gallons of gasoline, 2,000,000 gallons of aviation gasoline, and 72,000 tons of Diesel oil, and will have an export value of several million dollars.

Official advice of the purchase by China in the United States of petroleum products, and of intended shipments to Rangoon, has been received by T. K. Tseng, Vice Minister for Foreign Affairs of the Republic of China, now in this city, from Dr. H. H. Kung, the Chinese Minister of Finance.

Respectfully yours,

AUSTIN C. BRADY

701.5193/34 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 11, 1939—11 a. m.
[Received March 11—7:30 a. m.]

168. The new French Ambassador to China, Henri Cosme, who is understood to have served as Counselor and Chargé d'Affaires at Peiping from 1928 to 1930 and more recently as Chief of the Asiatic Section of the French Foreign Office, presented his credentials to the Chinese Government in Chungking on March 10 and has so notified me. The Chinese press utilized to [this?] occasion to urge closer Sino-French cooperation in the defense [of] their joint interests in the Far East and more specifically asked for parallel action on the part of France with the United States and Great Britain [in] facilities for transport of munitions through Indo-China, and French economic aid in the development of the southwest.

It is gathered that the appointment of Monsieur Cosme is welcomed in Chinese official circles as it is felt that he is sympathetic to the Chinese cause. He has informed me that he has been instructed to be in constant readiness to travel whenever his duties may require but that his headquarters will be in Shanghai where he will give personal supervision to the affairs of the French Concession which he deems his most important mission at present. He remarked that although the Chinese have hitherto strongly objected to the foreign Concessions, they now realize that Chinese interests are involved in the preservation of the Concessions. He inquired whether the American Ambassador would return to and remain in Chungking and I replied in the affirmative. He said he understood the Soviet Ambassador was the only other ambassador intending to do this.

Repeated to Peiping.

PECK

893.796/262 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 18, 1939—10 a. m.
[Received March 18—8:48 a. m.]

189. Reference my 172, March 13, 3 p. m.⁴² Kung, Minister of Finance, on March 17, 6 p. m., informed me that through K. P. Chen⁴³ he has been endeavoring to obtain assistance from the American Commercial Credit for the purchase of four airplanes that are badly needed by the China National Aviation Corporation. He said that Chen

⁴² Not printed.

⁴³ Chairman, Foreign Trade Commission, Chinese Ministry of Finance, on mission in the United States.

reported that the American authorities concerned state that the credit cannot be used for this purpose because airplanes are regarded as munitions of war and that especially because of excitement over the sale of military planes to France it would be difficult to assist in financing the sale of these planes to China.

Kung asserted that the China National Aviation Corporation would utilize the four planes for the forces of commercial purposes and he wondered why they should be regarded as war materials. He pointed out that the corporation is a joint American-Chinese enterprise and he urged that it is highly desirable from the American standpoint as well as the Chinese that the corporation shall utilize the opportunity for the expansion of its business that has been opened to it. Consequently he earnestly hoped that the Department would explore the possibility of assisting the Chinese Government to obtain financial assistance for Government from the credit established by the Export-Import Bank in effecting the purchase of these much needed commercial airplanes.

I told Kung that I had not heard of his negotiations but that I supposed a difficulty arose from the fact that the Executive Order⁴⁴ listing those articles for which export permits are not [*now?*] required as munitions of war included in this category all types of airplanes. I said I would nevertheless refer his request to the Department. It is reliably reported that the corporation is unable with the planes it now possesses to handle the freight, mail and passenger business falling to its share and that additional planes could be employed with profit to the corporation and with great advantage to the public. The prominence given to American initiative and management in this corporation needs no emphasis. The corporation's close competitor for business is the Chinese Eurasia Aviation Corporation. The former now holds franchises to operate to Hong Kong, Indochina and Burma. While it is evident that there are other important considerations bearing on the question of the desired credit, I venture the opinion that American prestige and American interests in general derive considerable benefit from the service rendered by the American enterprise and that on this account it merits continued support.

Repeated to Peiping.

PECK

893.796/262 : Telegram

The Acting Secretary of State to the Chargé in China (Peck)

WASHINGTON, March 21, 1939—7 p. m.

51. Your No. 189, March 18, 10 a. m. The Export-Import Bank has made it a matter of definite and public record that it will not

⁴⁴ See Presidential Proclamation of May 1, 1937; 50 Stat. 1834.

permit the use of any portion of the 25 million dollar credit extended to the Universal Trading Corporation to facilitate the exportation of arms, ammunition, or implements of war, as defined in the President's Proclamation of May 1, 1937.⁴⁵ Among the articles listed in that Proclamation are airplanes of all types without reference to the use for which they may be intended.

If the Chinese Government should make financial arrangements other than those suggested and purchase the desired equipment in the United States, the Department would, unless unforeseen circumstances should supervene, be prepared upon application to issue promptly licenses authorizing the export to China of the equipment under discussion.

Repeated to Peiping.

WELLES

893.248/110: Telegram

The Chargé in China (Peck) to the Secretary of State

[Extracts]

CHUNGKING, March 28, 1939—noon.

[Received March 28—11:45 a. m.]

218. McHugh reports that Dr. Kung signed a contract on March 25 with Al Patterson⁴⁶ and Le Lewis⁴⁷ under the loan agreement reported in my telegram No. 152, March 3, noon,⁴⁸ for the purchase of the following airplanes: 50 single seat and 4 dual control Seversky pursuits, 25 Chance Vought navy dive bombers and the following training planes: 50 Ryan primary, 20 of the same make advanced pursuit, 50 North American basic. The total order which quotes the planes complete with instruments and armament plus 20% of their value in spare parts aggregates \$8,800,000 United States currency. The final terms are understood to be one-fourth cash and the balance in equal installments over a period of 30 months with simple interest at 6% secured only by bearer notes signed by Dr. Kung. Delivery is to commence f. o. b. at factory within 2 months of date of signing of contract and to be completed in 8½ months.

Repeated to Peiping for the information of the Naval Attaché; to Shanghai for the Commander-in-Chief of the Asiatic Fleet, and to Hong Kong.

PECK

⁴⁵ 50 Stat. 1834.

⁴⁶ Capt. Allen L. Patterson, of China Airmotive Co., New York.

⁴⁷ L. A. Lewis, of China Airmotive Co., New York.

⁴⁸ Not printed.

893.24/548 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 30, 1939—1 p. m.

[Received March 30—11:30 a. m.]

227. Reference Embassy's telegram 216, March 28, 10 a. m.⁴⁹ The Embassy learns from an informed Chinese source that Sun Fo's⁵⁰ mission to Moscow is to plead with Stalin⁵¹ with whom he is on good terms for the granting of additional Russian support to China in the form of arms and munitions, and especially military aircraft the maintenance of the average number of which the Chinese authorities hope to increase from a present total of 200 to 500 available planes. The same source [apparent omission] Sun is [to?] proceed in about 2 weeks to Paris and London for discussions along similar lines with French and British officials.

Repeated to Peiping.

PECK

893.24/558

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

No. 4092

PARIS, April 4, 1939.

[Received April 17.]

SIR: I have the honor to reply to the Department's instruction no. 1351 of March 6, 1939, enclosing a paraphrase of telegram no. 64 of February 24, 9 a. m., from the American Consul General at Hong Kong,⁵² concerning certain developments in French Indo-China, reported to him by the American Consul at Saigon on February 14. The Embassy has also received a copy of a letter of February 28, 1939, from Consul Flood at Saigon to the Consul General at Hong Kong,⁵³ containing the text of a message regarding the same developments which he requested be radioed to the Department. These reports of February 14 and of February 28 from the Consul at Saigon, dealing primarily with the question of supply to China through French Indo-China from abroad, convey the impression that French policy has hindered rather than helped the Chinese to supply their wants, vital to the conduct of the war, from French and other foreign sources.

As observed from Paris, it has appeared that, although French sympathies have been almost entirely on China's side, the French Government has from the beginning of the war been chary of giving the

⁴⁹ Not printed.

⁵⁰ President of the Chinese Legislative Yuan.

⁵¹ Josif V. Stalin, Secretary General of the Communist Party in the Soviet Union.

⁵² Neither printed.

⁵³ See telegram No. 77, March 3, 10 a. m., from the Consul General at Hong Kong, p. 145.

Chinese Government support and assistance. To what extent this policy of caution has been dictated by fear of Japanese retaliation against French trade and other interests in the Far East, or of aggression on France's possessions there, it is difficult to estimate. Certainly the Japanese have not missed many opportunities to stimulate the belief that any important form of assistance, such as the supply of arms, would provoke serious reprisals. Moreover, the French Government has been unwilling to permit arms exportation, as they are needed for this country's defense.

French financial aid to China has been insignificant. The Chinese have been unable to obtain a loan from the French Government, and have not attempted to float one in the money market. While one or more French banks have participated in the financing of the Dong Dang-Nanning railroad, the amount of credit secured for purchases here has been inconsiderable.

Thus the question of help given, or harm done by France to warring China reduces itself principally to the question of facilities for, or hindrances on the shipment of goods to China through French Indo-China.

This traffic was regulated by a decree of August 1937 of the Blum Government, which prohibited the shipment through Indo-China of munitions of war, and a number of other articles susceptible to military use, like airplanes, not ordered prior to the issuance of the decree. As long as Monsieur Delbos, or his successor, Monsieur Paul-Boncour, was Foreign Minister the decree was applied in a manner favorable to the Chinese, but under the Daladier Government with Monsieur Bonnet as Foreign Minister, the control became very rigid, and remained so.

A few months ago we were told by a colleague in the Far Eastern Division of the Ministry of Foreign Affairs that the 1937 decree was being strictly enforced, and that as orders placed prior to August 1937 had been almost completed, very little in the way of munitions was passing through Indo-China. His statement was confirmed by the Assistant Military Attaché of the Chinese Embassy.

On February 6 of this year a counselor of the Chinese Embassy informed us that the French were still making difficulties for his Government in procurement of war supplies. He said that as the result of a dispute between the Governor of Yunnan and French merchants in Indo-China over whether the official or market rate of exchange was to be used in transfers of funds from Chinese dollars to Indo-Chinese piastres, the French succeeded in getting the Governor General of Indo-China, who ordinarily favors Chinese interests, to impose in retaliation a 3 percent ad valorem transit tax on goods passing through Indo-China en route to China. In consequence, considerable merchandise has been held up in Indo-China, and the bulk of importa-

tion has been shifted to the Rangoon-Mandalay-Yunnanfu route. This shift has been encouraged by the removal of a number of discriminations on importations into Burma against non-British ships and goods, so that now ships and goods of all nationalities destined for China enter Rangoon on a basis of equality with British.

He went on to say that protest against the French 3 percent transit tax has been lodged in Paris, but the Minister of Colonies professes himself powerless to overrule the decision of the Governor General.

At that time General Yang Che, Chinese Ambassador to the Soviet Union, had been living in Paris in strictest seclusion for the past three months for the purpose of buying armaments. The French, we were told, would sell him nothing, but he had purchased rifles and field pieces, mostly of obsolete pattern, from Belgium, Switzerland, Lithuania, Germany, and Czechoslovakia. These arms were shipped from northern European ports as the French Government would not permit their shipment through Marseille, which would have been cheaper and more expeditious.

But the Japanese occupation of Hainan ⁵⁴ instead of intimidating the French into shutting down further on the Chinese supply line through the Indo-Chinese Protectorate was followed by a change of policy to China's benefit. In consequence General Yang was soon able to inform Ambassador Bullitt personally that he was entirely satisfied with the treatment his Government was receiving from the French.

On March 6 the Chinese Ambassador to France informed Ambassador Bullitt that the French Government would henceforth regulate transit shipments through Indo-China in accordance with Chapter One of the Geneva Convention of 1925 on control of international trade in arms and munitions ⁵⁵ rather than the 1937 decree. (Embassy's telegram no. 415 of March 6, 8 p. m. ⁵⁶) That this has in effect been done has been lately told us by a secretary of the Chinese Embassy. He stated that the change now permits transit shipments of anything susceptible to peace time use, such as motor trucks, civil airplanes, raw materials, and machinery, even that used in munitions factories.

The same informant stated also that while the French professed inability to place an embargo on the export of war materials from Indo-China to Japan, as urged by the Chinese Ambassador here, they had agreed to subject their exportation to prolonged delay. The Chinese Secretary said that the "war materials" involved were principally iron and copper ores and coal, and that eighty to ninety percent of the export of these commodities from Indo-China went to Japan. He personally was convinced that the delay which would be

⁵⁴ See pp. 103 ff.

⁵⁵ Signed June 17, 1925, *Foreign Relations, 1925*, vol. I, p. 61.

⁵⁶ Not printed.

imposed on their shipment would be almost as troublesome to Japan as an embargo.

The two reports of Consul Flood, referred to in the first paragraph of the present despatch, were written prior to the taking of Hainan. The information they conveyed is more in harmony with French policy as noted by this Embassy in the pre-Hainan period. As that policy has changed, Mr. Flood doubtless has now quite different facts to report.

With respect to the progress of work on the Dong Dang-Nanning railroad, I have been informed by a British friend who has just returned from those parts that work is going ahead steadily. According to their contract, the French, he said, are covering the cost of materials, freight thereon, and bridge construction; the Chinese are providing the labor and paying the cost of other (than bridge) construction.

Officials in the Far Eastern Division of the Ministry of Foreign Affairs confirm the above statement that building of the railroad has not been stopped. In reply to the specific inquiry as to whether work on the bridges had been interrupted, they stated that while they could not positively affirm that it had not, the Foreign Office had no information of an interruption or a withdrawal of the European construction staff. They thought that the line would be completed and in operation sometime this year.

Respectfully yours,

For the Ambassador:
EDWIN C. WILSON
Counselor of Embassy

711.00111 Armament Control/2157

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

No. 3824

TOKYO, April 12, 1939.

[Received May 2.]

SIR: I have the honor to refer to the Department's instruction no. 1678, under date of March 10, 1939,⁵⁷ enclosing a copy of a memorandum of a conversation⁵⁸ between the Chief of the Division of Controls and Mr. Tswen-ling Tsui, First Secretary of the Chinese Embassy, in regard to a report that a corps of American aircraft engineers has recently been employed in Japan in connection with the proposed manufacture of airplanes of American types, and requesting that the Embassy transmit to the Department any information it might have or might be able discreetly to obtain in regard to this matter.

⁵⁷ Not printed.

⁵⁸ Dated March 1, p. 741.

According to information furnished by the Naval Attaché of this Embassy, the newspaper account in question is highly exaggerated. It is known that five American aircraft engineers, one from the Lockheed Aircraft Corporation, one from the Douglas Aircraft Corporation, and three from the Wright Aeronautical Corporation have been employed in Japanese aircraft factories in recent months. It is understood that these engineers have been engaged in teaching to Japanese aircraft engineers "line production methods in the manufacture of planes and engines of American-type produced in Japan under American licences granted to Japanese aircraft companies prior to June 1938. So far as we have been able to determine several of these individuals have been on leave status from their respective companies during the contract period of their employment in Japan, and four of the five are scheduled to return to the United States before the end of April. There is the possibility, of course, that other American aircraft engineers without American connections are at present employed in Japanese aircraft factories, but neither the Embassy nor the office of the Naval Attaché has been able to obtain any information which indicates that such is in fact the case.

There is enclosed for the strictly confidential information of the Department a report dated February 13, 1939,⁵⁹ on this subject from the Naval Attaché of the Embassy to the Navy Department.

Respectfully yours,

JOSEPH C. GREW

893.24/556 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 13, 1939—10 a. m.

[Received 10:35 a. m.]

257. Embassy's No. 215, March 28, 9 a. m.⁶⁰ During a conversation with Minister of Finance Kung on April 11 he referred to an earlier inquiry from me and volunteered following information about the German-Chinese negotiations relating to a barter arrangement: according to his recollection, negotiations began in 1934 and were concluded in 1936 resulting in the German Government granting the Chinese Government a revolving fund credit of 100,000,000 marks for the purchase of German goods including munitions. China was given a list of Chinese products desired by the German Government and all shipments were to be used to offset purchases made under the credit. China has placed orders aggregating 380,000,000 marks in value but some orders such as those for naval supplies were cancelled after the opening of the present hostilities.

⁵⁹ Not printed.

⁶⁰ *Ante*, p. 661.

A balance of about 12 million marks still remains in the credit and although for various reasons China has been slow in supplying commodities desired by Germany such as vegetable oils, nevertheless the special representative of the German Government Dr. Voigt while here urged that the remainder of the credit be utilized and that shipment of Chinese products be resumed. Such articles would be transported from Hong Kong in German ships. Munitions of war may still be purchased but from private firms and not from Government arsenals as heretofore.

The Department will note that this account differs only slightly from that in the telegram in reference.

Repeated to Peiping.

PECK

893.24/569

The Consul at Rangoon (Brady) to the Secretary of State

No. 178

RANGOON, May 1, 1939.

[Received May 16.]

SIR: I have the honor to report that 1,386 American motor trucks for the Chinese Government have now been delivered at Rangoon.^{a1} The total includes 500 Dodge and 502 General Motors (GMC) trucks shipped direct from the United States to Rangoon on American vessels, and 384 Dodge trucks originally shipped to Hong Kong and brought here from that place. The trucks included in the direct shipments are part of the purchases of the Universal Trading Corporation under the credit authorized by the Export-Import Bank, and are for the use of the Southwest Transportation Company, the concern in charge of the movement of war supplies.

Only 30 of the Dodge trucks delivered by American vessels have been assembled up to this time. Labor difficulties have interfered with the work, but it is thought that these have been overcome by the importation of 150 Chinese mechanics and carpenters from Yunnan. One hundred more Chinese workmen are said to be on the way to Rangoon. The American representative of the Chrysler Export Corporation who is here to supervise operations hopes to be able to assemble 10 to 15 trucks daily. There are 115 Dodge trucks with cabs and stake bodies (all others consist of chassis only), and these are the vehicles that are now being turned out for service. The work of assembling GMC trucks has just been commenced.

^{a1} By July 22, 1768 American and 120 British trucks had been delivered at Rangoon.

The first 84 Dodge trucks brought here from Hong Kong have been assembled and equipped with bodies, and some have been shipped to Lashio en route to China. Nothing has yet been done with the other 300. As previously reported, these trucks were obtained through Dodwell and Company of Hong Kong, and they also are for the use of the Southwest Transportation Company.

Not to Assemble Trucks at Lashio.

Plans for assembling motor trucks for China at Lashio, the terminus of the Burma Railways in the Northern Shan States, have been abandoned, at least for the present, and the work will be done in Rangoon. After being fitted with locally-made bodies, assembled trucks will be shipped to Lashio by rail, and will be loaded there with war materials and sent into China. The seaplane hangar of the Irrawaddy Flotilla Company, which has not been in use since seaplane service in Burma was discontinued last year, and part of the foundry of that concern at this port, have been leased for assembly purposes, but additional space is required.

The Chrysler representative in Rangoon has received information that many units of the second 500 Dodge trucks purchased by the Universal Trading Corporation will arrive at Rangoon this month on the American steamship *Atlanta City*. These additional trucks will form part of the fleet of 1,000 which the Foo Shing Trading Corporation of China has agreed to maintain for the exportation of wood-oil to the United States for the Universal Trading Corporation of New York.

Four American Ships Deliver Trucks.

Direct shipments of American trucks to Rangoon have been made on the American vessels *Wichita*, *President Monroe*, *Steel Trader*, and *City of Rayville*. The last of the four vessels named, which arrived at this port on April 28th, also brought from the Universal Trading Corporation 2,000 truck tires, 36 tons of heavy hammers, 10 tons of shovels, and five tons of road-grading equipment.

Three hundred five-ton Thornycroft trucks purchased by Chinese interests under a British credit are expected at Rangoon from England within a short time. According to press reports, the purchase comprises 1,300 of these trucks. It is also reported that 250 Bedford trucks for China will come here from England, where they are made by General Motors.

Respectfully yours,

AUSTIN C. BRADY

893.154/254

Memorandum by Mr. James K. Penfield of the Division of Far Eastern Affairs

[WASHINGTON,] May 19, 1939.

It is felt that the following brief survey of the operation of the Yunnan-Burma highway during the approximately five months that it has been open to traffic may be of interest at this time.

ARRIVAL OF MUNITIONS IN RANGOON ⁶²

The first vessel carrying war materials for China was reported to have arrived in Rangoon on November 3, 1938. By January 18 it was reported that there were 9,000 tons of war materials at Rangoon; on March 16 the Chinese Vice Minister for Foreign Affairs stated that approximately 15,000 tons had arrived at that port of which some 2,000 tons had been shipped to Lashio; and by April 13 it was reported in Chungking that there were 30,000 tons of munitions at Rangoon awaiting shipment into China and a Southwest Transportation Company officer stated that 3,600 tons had been shipped to Lashio. Calculated on a basis of duty paid the value of war materials formally cleared for shipment from Rangoon up to March 4 was estimated at about United States \$9,676,800. The Consul at Rangoon reports that munitions continue to arrive at that port direct and in relatively small amounts via Singapore and Colombo.

The amount of Burma customs duty payable on war materials re-exported overland to China (in most cases slightly over 3% ad valorem) constituted a burden to the Chinese but recent reports from Rangoon indicate that the Governor of Burma has now ordered that duty on such goods shall not exceed 1% ad valorem.

Munitions are said to include high explosives, machine guns and ammunition, shells, anti-aircraft guns, small arms and ammunition, trench mortars, two tanks and a few field guns. They are reported to be of Russian, German, Czechoslovakian, Italian and French origin.

TRANSPORT FACILITIES

High explosives have been stored in a barge in the Rangoon River and storage facilities for other war materials have been established at Rangoon. Storage facilities for about 6,000 tons of both dangerous and non-dangerous goods are reported to have been established at Lashio and for 1,500 tons at Chefang. Most of the war supplies are sent by rail from Rangoon to Lashio and from there are transported by a Rangoon haulage contractor, who is reported to be employing 185 Chevrolet trucks in this service, to Chefang, some 150 miles from Lashio and 24 miles across the Chinese border. From Chefang they

⁶² Throughout this memorandum the footnote citations to telegrams, despatches, and reports are omitted.

are carried on to Yunnanfu and other parts of China in Southwest Transportation Company trucks. By April 8 over 500 American truck chassis had arrived in Rangoon and more were reported to be en route. They are being supplied with bodies and reportedly put into service by the Southwest Transportation Company between Chefang and Yunnanfu.

It is reported that many truck chassis as well as large quantities of petroleum products are being purchased in the United States under the Export-Import Bank credit to the Universal Trading Corporation.

In this connection it is of interest to note that the Consul at Yunnanfu reports that grading work on the proposed Burma-Yunnan Railway is progressing rapidly but that in as much as there appears to be no bridge or culvert construction carried on there is no assurance that the roadbed will be completed at an early date.

MOVEMENT OF WAR MATERIALS INTO CHINA

Reports from Yunnanfu indicate that during December small shipments of supplies arrived in that city from Burma over the new road, but it is believed that the road was later closed to heavy traffic for a short period and that, due principally to lack of trucks, regular transport of war materials did not start until March.

Reports from various sources indicate that although the transport is not very well organized or very efficient some 900 to 1200 tons of war supplies per month are arriving in Yunnanfu. There have been no reports of any export produce carried by the trucks on their return journeys toward Burma, most trucks observed while returning over the Yunnanfu-Hsiakwan section of the road having been carrying motor fuel.

By way of comparison it may be noted that over 5,000 metric tons of freight per month enter Yunnan over the Yunnan-Tonkin Railway and that from May to September 1938 an average of 90,000 tons of goods per month were reportedly moved on the Canton-Hankow Railway. It is thus apparent that the new highway is as yet far from being a supply route over which any considerable volume of war materials enters China.

FUTURE PROSPECTS

It appears to be generally admitted that the road will in all probability be damaged by landslides and washouts during the rainy season which lasts from May or June through November but many observers are hopeful that some traffic will be possible during this period. An agent of the Bank of China who recently traveled over the road

stated that there are 20,000 men employed in improvement and reconstruction and 10,000 in road maintenance work. It is the opinion of Consul Meyer at Yunnanfu that the present force will have to be considerably augmented if even the Yunnanfu-Hsiakwan section (first opened to traffic about three years ago) is to be kept open during the rainy season. In any event it appears probable that the small stream of war supplies now reaching China via Burma will, within the next month, dwindle to nominal proportions until near the end of the year at which time, with the advent of the dry season and with additional trucks available, it may be expected to resume its flow at substantially above the present volume.

893.24/573 : Telegram

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

PARIS, June 1, 1939—6 p. m.

[Received June 1—3:55 p. m.]

1051. The Chinese Ambassador⁶³ said to us today that despite the orders issued by the Minister of Colonies to the authorities in Indo-China to suppress the transit duties on supplies destined for the Chinese Government the duties were still being collected. The local authorities have appealed to the French Government on the ground that failure to collect these duties would result in serious financial loss and that the duties should continue to be collected until new revenues have been found to take their place. The Ambassador said that he was urging the French Government to insist that its instructions be carried out.

Wellington Koo stated that in addition to the export credits to be used in the construction of the railway between Yunnan and Chungking he had recently requested the French Government to extend credits for constructing chemical factories in Yunnan for the production of explosives.

The Ambassador also stated that he had asked the French Government to suspend the transit duties and to provide adequate railway facilities for the transit through Indo-China before the end of this year of tung oil shipments in the total amount of 25,000 tons destined for the United States in connection with arrangements made at the time the Chinese credit was obtained through the Export-Import Bank.

BULLITT

⁶³ V. K. Wellington Koo.

893.51/6901 : Telegram

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

WASHINGTON, June 2, 1939—7 p. m.

396. Your 1051, June 1, 6 p. m., last paragraph. The Department desires that, unless you perceive objection, you strongly urge the appropriate French authorities to facilitate by all reasonable methods the transit of the tung oil shipments, basing your approach on (a) the need of the American paint industry for the tung oil, (b) the fact that the shipments of tung oil are the means for repayment for the \$25,000,000 credit extended by the Export-Import Bank,⁶⁴ and (c) the fact that delivery of the tung oil will operate toward maintaining China's credit which in turn is to the interest of all countries desirous of maintaining normal and healthy relations with China.

HULL

893.51/6902 : Telegram

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

PARIS, June 3, 1939—3 p. m.

[Received June 3—1:12 p. m.]

1061. Your 396, June 2, 7 p. m., was taken up this morning with the Chief of the Far Eastern Division at the Foreign Office.⁶⁵ He said that on May 24 the Foreign Office had transmitted to the Ministry of Colonies the request of the Chinese Ambassador for facilities for the transit of these tung oil shipments. Chauvel stated that he would at once get in touch with the Minister of Colonies, explain the considerations set out in your telegram and urge that for these reasons the Chinese Ambassador's request should be granted without delay.⁶⁶

BULLITT

893.51/6919 : Telegram

The Chargé in France (Wilson) to the Secretary of State

PARIS, June 15, 1939—3 p. m.

[Received June 15—11:12 a. m.]

1135. Embassy's 1061, June 3, 3 p. m.; and 1107, June 10, 1 p. m.⁶⁷ Chauvel tells me that the Foreign Office has received a letter from the Ministry of Colonies to the effect that in view of the interest of the United States in these tung oil shipments it has been decided to exempt the shipments from payment of the Indo-China transit duty and to

⁶⁴ For further correspondence, see pp. 636 ff.⁶⁵ Jean Chauvel.⁶⁶ The Ambassador in France took up the question again on June 6.⁶⁷ Latter not printed.

provide the necessary railway facilities so that the total amount of the shipments may be effected before the end of the year.

WILSON

893.24/581 : Telegram

The Consul at Rangoon (Brady) to the Secretary of State

RANGOON, June 30, 1939—5 p. m.
[Received June 30—1:36 p. m.]

War materials for China passed by customs during the period May 21–June 3 valued at 7,965,000 rupees or approximately \$2,788,000. Denmark, Belgium, Germany, France, Russia were the principal sources of supply in the order named, supplies were mostly cartridges, shells, rifles, pistols and machine guns.⁶⁸

Inquiries received by Burma customs authorities from Hong Kong [and] Shanghai Banking Corporation indicate that large quantity Chinese silver, chiefly coin, may be shipped through Rangoon. No definite information yet available here.

BRADY

893.24/599

*The Assistant Military Attaché in China (Barrett) to the War Department*⁶⁹

CHUNGKING, August 13, 1939.

New military air field built by Chinese 30 miles up river. Two hundred twenty-five Soviet planes recently arrived China and less than that number Soviet pilots according to reliable source who states also that 60 pursuits to be allotted defense of Chungking.

BARRETT

740.00111A Arms Control–Transshipments/3 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom (Kennedy)*⁷⁰

WASHINGTON, September 8, 1939—4 p. m.

862. Shipments of arms from the United States to China are proceeding only via French Indochina and Burma. As shipments destined to either Burma or Indochina are prohibited under the existing

⁶⁸ In despatch No. 192, July 5, the Consul at Rangoon reported that this brought the total imports passed by customs up to the end of this period to \$20,497,860 (893.24/587).

⁶⁹ Paraphrase of radiogram received at the War Department, August 13, 9:54 p. m., and transmitted to the Department of State.

⁷⁰ The same, *mutatis mutandis*, to the Ambassador in France as No. 830, September 8, 3 p. m.

embargo,⁷¹ shipments to China must cease unless this Government can be assured that shipments in transit will not be interfered with.

Please explain this situation to the appropriate British authorities and request definite assurance from the British Government that shipments from the United States consigned to China will not be detained in British territory.

I am sending a similar telegram to Paris requesting assurances in respect to shipments through French Indochina.

HULL

740.00111A Arms Control-Transshipments/4: Telegram

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

PARIS, September 9, 1939—4 p. m.

[Received September 9—3:10 p. m.]

1875. Department's Number 830, September 8, 3 p. m.⁷² The Assistant Chief of the Asiatic Section in the Foreign Office informed us orally this morning that the French Government could assure us that shipments through French possessions in transit to China would not be detained in French territory provided that these shipments did not comprise arms and munitions as narrowly defined in the Geneva Convention of 1925⁷³ to which Japan was also a signatory. He added that France had not made shipments of this nature to China since September of last year.

BULLITT

740.00111A Arms Control-Transshipments/4: Telegram

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

WASHINGTON, September 13, 1939—10 p. m.

913. Your no. 1875, September 9, 4 p. m. The assurance which you have received from the Foreign Office is of no practical value whatever in relation to the continuance of shipments of arms required by the Chinese Government. The definition of arms, ammunition, and implements of war in the Geneva Convention of 1925 is even more comprehensive than the definition contained in the President's embargo proclamation.

As the Geneva Convention has never been ratified by a sufficient number of States to bring it into effect, and as it would have no application to the situation under discussion even if it were in effect, it is not understood why the Foreign Office should make reference to that treaty.

⁷¹ Presidential Proclamation of September 5; 54 Stat. 2635.

⁷² See footnote 70, p. 757.

⁷³ *Foreign Relations*, 1925, vol. I, p. 61.

No reply has as yet been received from the Embassy in London in regard to shipments via Burma.

HULL

740.00111A Arms Control-Transshipments/5: Telegram

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

PARIS, September 14, 1939—5 p. m.

[Received September 14—3 p. m.]

1965. Your 831 [830], September 8, 3 p. m.,⁷⁴ my 1875, September 9, 4 p. m. and your 913, September 13, 10 p. m. If the official of the Department who drafted your telegrams under reference will consult the Division of Far Eastern Affairs in the Department he will unquestionably be able to find there an exact explanation of the point of view of the French Government with regard to shipments via French Indochina. It is and will remain impossible for the French Foreign Office to make any other reply to a request for a definite assurance from the French Government on this subject.

I can, however, assure you that shipments from the United States consigned to China will not, in fact, be detained in Indochina or other French territory provided they are labeled on the principle that a rose by any other name would smell as sweet.

I should prefer not to discuss this question by telegram but if you do not understand and desire an immediate telegraphic explanation I shall be glad to give it. Please instruct me at once.

BULLITT

740.00111A Arms Control-Transshipments/5: Telegram

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

WASHINGTON, September 16, 1939—6 p. m.

963. Your No. 1965, September 14, 5 p. m. The situation is clear. No further explanation is necessary.

HULL

893.24/619

Memorandum by the Chief of the Division of Controls (Green)

[WASHINGTON,] September 18, 1939.

After consulting Mr. Hornbeck,⁷⁵ Mr. Moffat⁷⁶ and Mr. Hamilton, I called the British Ambassador⁷⁷ by telephone this morning and

⁷⁴ See footnote 70, p. 757.

⁷⁵ Stanley K. Hornbeck, Adviser on Political Relations.

⁷⁶ Jay Pierrepont Moffat, Chief of the Division of European Affairs.

⁷⁷ The Marquess of Lothian.

requested him to call at my office. When Lord Lothian called I explained to him the situation which has arisen in connection with the shipment of arms from the United States to China as a result of the embargo prohibiting the exportation of arms to Great Britain and France. I said that we had instructed our Ambassador in London on September 8 to take this matter up with the Foreign Office and to request assurances that arms exported from this country consigned to China would not be detained when in transit through Burma, but that so far the only reply which we had received had been to the effect that the Burma Government was being consulted.

Lord Lothian said that he would take the matter up immediately with the Foreign Office with a view to expediting action. He intimated that in his opinion some assurance of the kind requested should be given.

I told Lord Lothian that as soon as this particular matter of the shipment of arms to China via Burma was settled we would probably raise with his Government similar questions in respect to the shipment of arms via British West African ports to Liberia and via Singapore to Thailand, et cetera.

JOSEPH C. GREEN

740.00111A Arms Control-Transshipments/13 : Telegram

The Ambassador in the United Kingdom (Kennedy) to the Secretary of State

LONDON, September 25, 1939—2 p. m.
[Received September 25—8:50 a. m.]

1810. My 1670, September 15, 9 p. m.⁷⁸ Following informal letter dated September 23 received from the Foreign Office:

"I write to assure you that His Majesty's Government will do nothing to impede the progress of transmission to China of arms and materials for the Chinese Government exported from the United States, provided that the documents of the ships in which they are carried clearly indicate their destination."⁷⁹

2. You will, of course, understand that in present circumstances it is possible that these ships will be stopped in order that their identity may be established and their papers examined. If, however, this examination proves satisfactory they will naturally be allowed to proceed at once without further hindrance."

KENNEDY

⁷⁸ Not printed.

⁷⁹ In telegram No. 2087, October 19, 11 a. m., the Ambassador reported a similar assurance from the British Foreign Office regarding shipments of arms to the Liberian Government, Thailand, and the Shanghai International Settlement Municipal Police.

740.00111A Arms Control-Transshipments/13 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Kennedy)*

WASHINGTON, September 28, 1939—11 a. m.

1097. Your no. 1810, September 25, 2 p. m. In view of the assurances which you have received from the Foreign Office, the Department is instructing collectors of customs to permit the departure of shipments of arms consigned to the Government of China via Rangoon which have been held at ports of exit. The Department is also resuming the issuance of licenses authorizing such shipments.

It is noted that the assurances which you have received refer specifically to shipments destined to the Chinese Government. Licenses are occasionally applied for to authorize the shipment of small quantities of small arms and small arms ammunition consigned to the Shanghai International Settlement Municipal Police for its use. Such shipments are frequently routed via Hong Kong.

Shipments of arms from this country to Thailand are, without exception, transhipped at Singapore.

The Department has issued a license authorizing the exportation of 20 machine guns to Liberia. These guns were purchased by the Liberian Government for the internal defense of the country under the plan concerning which you have been fully informed.⁸⁰ Licenses authorizing the exportation of ammunition for these guns will probably be applied for in the near future. The Liberian Government wishes to ship these arms on ships of the American West African Steamship Line. Its vessels are scheduled to touch at Freetown en route to Monrovia. In this connection, it may be noted that the Department has been informed by the Firestone interests that a shipment of dynamite consigned to the American Legation in Monrovia for use in the construction of the new Legation was unloaded and detained at Freetown but finally permitted to proceed after considerable delay.

You are requested to ascertain whether the Foreign Office is willing to give assurance that these shipments of arms to Shanghai, Thailand, and Liberia will not be detained or otherwise interfered with while in British territory en route to destination. As the ships of the American West African Steamship Line are also scheduled to stop en route at French West African ports, the Embassy in Paris is being requested to ask for similar assurances from the French Government in respect to the proposed shipments to Liberia.⁸¹

HULL

⁸⁰ See vol. iv, pp. 564-614, *passim*.

⁸¹ French assurances were reported in Embassy's telegram No. 2446, October 13, 11 a. m. (740.00111A Arms Control-Transshipments/25).

893.24/623

*Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)*

[WASHINGTON,] October 9, 1939.

The Chinese Ambassador ⁸² informed me last evening that he had just received from his Government a telegram which indicated concern on the part of his Government and gave him concern regarding the flow of goods into China through French Indo-China. He said that the French Government had informed his Government that, of goods accumulated at Haiphong consigned to the Chinese Government,

1. German-made goods must be cleared out before October 25;
2. Contraband goods shipped by Chinese private merchants and firms must be cleared out before October 30;
3. Contraband goods now going forward to the Chinese Government will for the time being be permitted to pass, but a time limit will soon be determined and be announced;
4. When the new date is announced, the prohibition will include American shipments of gasoline and automotive equipment.

The Ambassador said that his Government was worried over this and wished him to ask whether something might not be done to modify the French Government's position, as this action on the part of France would affect any negotiations for new credits and affect the huge amount of goods already accumulated in Indo-China consigned to China (which, he said, could not be cleared out in so short a time).

The Chinese Government asked urgently for an early reply.

I said to the Ambassador that it seemed to me that everything possible had already been done in regard to this matter; that I doubted whether the French Government's "bite" would be as bad as its "bark"; that we have heard of such intended prohibitions on a number of occasions in the past but that we have seen the goods continue to flow; that it would seem to me that the Chinese Government should do everything possible to speed up the clearing out of the accumulations under reference; and that I thought that the local French authorities would probably be inclined to be liberal in the whole matter.

STANLEY K. HORNBECK

893.24/616: Telegram

The Consul at Rangoon (Brady) to the Secretary of State

RANGOON, October 10, 1939—5 p. m.

[Received October 11—1:55 a. m.]

Transit shipments of Chinese war materials from August 3 to September 15 had value of only 1,325,000 rupees or about \$463,000.

⁸² Hu Shih.

Principal items representing more than 90% were rifles from Belgium and machine guns from Denmark. Movement by rail was reduced because of difficult highway conditions. Chinese Vice Minister for Foreign Affairs now here reports that German ship carrying 700 tons munitions for China valued at 10 million Chinese dollars took refuge in Netherland East Indies port but that it is expected to obtain the supplies. He also says that British have not restricted the delivery of German materials for China on the way to Rangoon at outbreak of war. He says European war is certain to interfere with flow of war munitions but he asserts China has reserves sufficient for a year.

BRADY

893.24/620 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, October 13, 1939—noon.

[Received 4:30 p. m.]

374. Following from Reed at Hanoi: ⁸³

October 11, 6 p. m. My September 26, 3 p. m.

1. Information said to emanate from authoritative official circles as regards policy to be pursued toward the export and transit of goods to China (those goods which are prohibited export from Indo-China) indicates to a large extent that the French policy vis-à-vis China is still subject to political expediency.

2. In letters dated October 3d the Governor General notified the Chinese Consul General that the export and transit of these prohibited goods to private concerns in China will be banned after October 13 and that the export and transit of such goods to the Chinese Government will be banned from a date to be announced by the Director of Customs at Hanoi. However, the export and transit of the goods covered by the Universal Trading Company loan to China will be permitted as heretofore.

3. Subsequent to the receipt of these letters various people have talked with the Governor General and Director of Customs and have received the very definite impression that a more lenient policy than that indicated by these letters will be pursued, provided the congestion of freight at Haiphong be cleared up. I have been informed that it will take more than 6 months to clear up this congestion.

4. According to Chinese and foreign sources, the French desire to avoid the appearance of active assistance to the Chinese Government. According to a number of these sources, certain Japanese are expected at Haiphong within a week or so and every effort is being bent to force the Chinese to clear up the almost unbelievable congestion. It is rumored that an order has been issued that all gun cars and trucks must leave Haiphong within 3 days regardless of whether they are loaded or not.

5. The immediate movement of cargo is definitely handicapped by the lack of chauffeurs, by the condition of the road beyond the frontier,

⁸³ Charles S. Reed, II, Consul at Saigon on detail to Hanoi.

which has been repeatedly bombed within the last few days, and by the break in the railway to Kunming which may not be in a position to carry freight for at least a month.

6. From recent conversations in Hanoi and Haiphong it would appear that for the present the Indo-China Government is disposed to give favorable consideration to shipments to the Chinese Government, especially goods of American origin, but that there is an understandably strong desire to avoid complications with the Japanese, so strong as to warrant the apprehension of restrictions upon the transit of the above mentioned goods to China if and when Japanese pressure becomes urgent.

Repeated to Chungking and Peiping. Saigon informed.

SOUTHARD

893.24/616 : Telegram

The Secretary of State to the Consul at Rangoon (Brady)

WASHINGTON, October 13, 1939—6 p. m.

Your telegram, October 10, 5 p. m. The British Government has assured this Government that it will do nothing to impede the progress of transmission to China of arms exported from the United States to the Chinese Government provided that the documents of the ships in which such arms are carried clearly indicate their destination. In view of this assurance, collectors of customs are permitting the exportation to China via Rangoon of arms the exportation of which has been authorized by license.

In your periodic telegrams on this subject please include full information in regard to shipments of arms from this country.

HULL

893.24/624 : Telegram

The Consul at Rangoon (Brady) to the Secretary of State

RANGOON, October 19, 1939—3 p. m.

[Received October 19—9:22 a. m.]

British steamship *Beaconsfield* has arrived here with approximately 8,000 tons of Russian war materials for China, estimated value 2,000,000 pounds sterling. Ship loaded at Odessa and was there at outbreak of European war. It was held 9 days at Istanbul by Turkish authorities and 2 days at Port Said pending decisions permitting it to proceed. Vessel was chartered by Chinese interests in Paris and shipment is understood to be under barter arrangement with Soviet. Proper invoices of materials are lacking but Burma customs are allowing steamer to discharge cargo which includes field guns and carriages, shells and parts, machine guns, small arms and ammunition. All reported to be of recent manufacture.

BRADY

893.24/633 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, November 3, 1939—4 p. m.

[Received November 3—5 a. m.]

402. Following from Reed at Hanoi:

“October 26, 6 p. m. My October 11, 6 p. m.

1. All restrictions on transit, mentioned in second paragraph of that telegram, have now been removed. This is confirmed by letter to Chinese Consul General dated October 23.

2. Considerable progress has been made in last 2 weeks in clearing the congestion mentioned in third paragraph of that telegram. Organization of traffic appears to be better coordinated.

3. Railway traffic to Kunming is still interrupted and will not resume for at least 2 more weeks. Road traffic is said to have been more than doubled within last week.”

Since this message was received from Hanoi by air mail we hesitate to use confidential code for transmittal. Would appreciate instructions as to code to be used in relaying by naval radio Reed's confidential messages received by mail.

Repeated to Chungking, Peiping. Saigon informed.

SOUTHARD

893.796/275 : Telegram

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

CHUNGKING, November 25, 1939—9 a. m.

[Received November 25—3:05 a. m.]

608. F. B. Lynch, recent adviser to the Ministry of Finance, informed Weil²⁴ November 23 that the first flight on the Chungking-Hami Air Line has been scheduled tentatively for December 4; that Junkers planes owned by Eurasia but operated by the Ministry of Communications and piloted by Chinese will fly to Hami via Sian and Lanchow; and that Russian-built DC3's will be used between Hami and Alma Alta, where the line will presumably connect with a line to Moscow. Inauguration of the Hami-Alma Alta Line has not yet been announced.

Lynch is being sent to the northwest to investigate movements of cargo under Sino-Russian barter agreements. It appears that the Chinese Government suspects that Chinese products—particularly wool—which might be sent to Russia are finding their way into Japanese hands.

Repeated to Peiping, Shanghai.

PECK

²⁴ T. Elliot Weil, Third Secretary of Embassy in China.

893.24/648 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, November 27, 1939—1 p. m.

[Received November 27—8:53 a. m.]

430. The following is a paraphrase of message received by air mail for the Department from Reed at Hanoi:

November 21, 5 p. m. Rumors as yet unconfirmed about the capture of Nanning greatly concern the attention of everyone here interested in the shipment of supplies inland to China. It is apparently certain that an important section of the road from Indo-China to Nanning has been destroyed with the result that all traffic has been stopped. There is great pessimism, among other immediate reactions, as to the future of transit via Indo-China to China.

Repeated to Chungking, Peiping, and Saigon informed.

SOUTHARD

893.24/651 : Telegram

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

Tokyo, December 1, 1939—8 p. m.

[Received December 1—10:15 a. m.]

647. We are informed in confidence by a member of the French Embassy that the French Ambassador⁸⁵ was requested to call upon the Foreign Minister⁸⁶ yesterday, and that in the course of the interview Admiral Nomura handed the Ambassador a "courteously phrased" protest against the continued shipment of munitions to Chiang Kai-shek⁸⁷ from Indo-China and stated that the Pakhoi campaign had been undertaken by the Japanese in order to prevent arms from this source from reaching the Chinese forces. At the same time the Foreign Minister disclaimed any Japanese designs against Indo-China. He likewise explained that certain Japanese planes which have recently flown over Indo-China territory had done so unintentionally on account of poor visibility.

GREW

893.24/654 : Telegram

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

CHUNGKING, December 3, 1939—11 a. m.

[Received December 3—9 a. m.]

624. The French Ambassador informed Major McHugh during a long and frank conversation on December 2 that he believed the Japanese invasion of Kwangsi primarily to be a political attempt to

⁸⁵ Charles Arsène-Henry.⁸⁶ Adm. Kichisaburo Nomura.⁸⁷ President of the Chinese Executive Yuan (Premier).

intimidate the Indochina Government into closing its border and stopping the transit of all supplies for the Chinese. He vehemently denounced as Japanese propaganda all rumors that France is lukewarm to China, denying the alleged presence of one of his staff at a reception given by the Ta Tao Government⁸⁸ in Shanghai this fall, asserting that he had refused Wang Ching Wei⁸⁹ haven in the French Concession at Shanghai, disclaiming any ulterior motive in the withdrawal of the French military mission and explaining the misunderstanding which arose in September over the report that the Indochina border had been closed. In rebuttal he cited the commitment of his Government to a fresh capital investment of 80 million francs for the expansion of the traffic facilities of the railway to Yunnanfu and further stated that he had just received approval of an additional outlay of 16 million francs for the construction of a new motor road from Haiphong to Laokay as alternate route due to the interruption of the Nanning road.

Doctor Hollington Tong⁹⁰ was present during the latter part of the conversation when the Ambassador pointed out that it would be useless to build this road if the Chungking government failed to supplement it with a suitable extension. Monsieur Cosme further urged Tong to impress upon the Generalissimo⁹¹ the need for China to place strong guards at all vulnerable points along the railway within Chinese territory in keeping with similar precautions already taken by the French on their side in order to ward off bombing attacks or forestall sabotage. He asserted that his government is prepared to continue to assist China in every possible way despite its serious responsibilities in Europe provided the Chinese do their part. He warned him, however, that if the Japanese were permitted to occupy and hold the territory adjacent to the Indochina border, France could not be blamed if she were forced later to meet such a position by appropriate conciliation in order to safeguard her interests.

The Ambassador stated that he himself expected to put the foregoing very bluntly to the Generalissimo on December 3 and added that he expected to remain in Chungking until the Kwangsi crisis had passed.

A memorandum of the complete details of the foregoing conversation is being forwarded by air mail. McHugh requests that the above information be made available to the Naval Attaché and Navy Department.

Repeated to Peiping and Shanghai. Peiping please mail to Tokyo.

PECK

⁸⁸ Japanese-sponsored municipal government.

⁸⁹ Former Deputy Leader of the Kuomintang (Chinese Nationalist Party) who left Chungking in December 1938.

⁹⁰ Chinese Vice Minister of Information.

⁹¹ Chiang Kai-shek.

893.24/656 : Telegram

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

PARIS, December 4, 1939—9 p. m.

[Received December 5—10:34 a. m.]

2897. Chauvel said today that he had authorized the following items which were published by Havas.

“Regarding the interview of November 30 given by the Japanese Minister of Foreign Affairs to the French Ambassador the spokesman for the Foreign Office made reference in the press conference held on the same day ‘to the traffic which continues across Indo-China of arms and ammunition destined for the Chinese national forces’.

It is regretted in authorized French circles to be obliged to repeat once more that such information regarding the reported transit via Indo-China of arms, ammunition and war supplies destined for China is false.”

[“]Furthermore, the Agence Domei issued the following report on December 1.

“According to a press report from Hong Kong, since the arrival of Monsieur Henri Cosme, French Ambassador to Chungking, Kuomintang leaders have urged the transportation into Indochina of arms and ammunition accumulated for the month at Tehen-nan-kouan²² where they will be secure. On the basis of reports received from Chungking, the French Ambassador has visited Chiang Kai Shek, Dr. Kung, Dr. Wang Chung Hui²³ and other Kuomintang leaders.

The Kuomintang leaders have studied with Monsieur Cosme the state of transport to the interior and the importation in general of arms and ammunition by the Yunnan-Annam Railroad, and notably also the question of the transport of arms and ammunition now at Tehen-nan-kouan. It is reported that the value of the latter supplies reaches a figure of 10 million yuan dollars.’

It is hardly necessary to state that this so-called information is pure invention.”

Chauvel said that these denials are literally correct as France is not permitting the transit via Indo-China of arms and munitions as defined by the Geneva Convention of 1925 to which Japan is a party. It is true however that transit is allowed over this route for a host of other commodities.

Our informant went on to say that Nomura has just handed to the French Ambassador at Tokyo a lengthy list of Japanese demands on France which the Ambassador has mailed to Paris as too lengthy to cable. Chauvel said that the demands included references to Indo-Chinese wolfram and nickel as well as a condition that Japan be allowed to place inspectors in Indo-China itself to survey all shipments destined for China. According to Chauvel[’s] sketchy knowledge now available regarding these Japanese demands France will be required to refuse them all.

Chauvel said that he understood that the Japanese had as yet not

²² Presumably Chen-nan-chow on the Burma Road in Yunnan.

²³ Chinese Minister for Foreign Affairs.

advanced further than the suburbs of Nanning. He said that he understood that the Japanese had approximately three divisions and a substantial air force based at Pakhoi; that the next Japanese point of [attack?] would be an operation from Canton which would encircle the southern portion of Kwangtung proceeding along the Si-Kiang River and joining up with the forces now at Nanning. Japanese control would then extend to the Indo-Chinese frontier thus completing the operation which began with the occupation of Baolongvi [*Cape Paklune?*] in the Gulf of Tonkin and the subsequent landing at Hainan.

BULLITT

893.24/664 : Telegram

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

TOKYO, December 11, 1939—8 p. m.
[Received December 11—8:35 a. m.]

676. The Counselor of the French Embassy recently informed a member of my staff in confidence that sometime ago the Foreign Office proposed that the French Government permit the stationing in Indo-China of Japanese officials to "control" the traffic toward China with a view to preventing the shipment of arms. This was refused.

A second proposal has just been made by the Foreign Office that an official of the Foreign Office who has been handling Indo-Chinese affairs accompanied by a Japanese military officer be sent on a mission to Hanoi for a few days "to inform the Japanese Consul General concerning the general situation". The military officer would "assist in explaining the military operations in Kwangsi". The Foreign Office also suggested that there would be no objection to the French Military Attaché at Tokyo accompanying the mission.

The French Ambassador has referred the matter to Paris but has received no reply.

GREW

893.24/666 : Telegram

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

PARIS, December 13, 1939—4 p. m.
[Received 7:30 p. m.]

2967. Chauvel gave me to read today three telegrams: the first dated November 30 from the French Ambassador in Tokyo; the second dated December 7 to the French Ambassador in Tokyo signed by Daladier;⁹⁴ the third dated yesterday from the French Ambassador.

⁹⁴ President of the French Council of Ministers (Premier) and Minister for Foreign Affairs.

He said that he intended to transmit to Saint-Quentin⁹⁵ these three telegrams and to instruct Saint-Quentin to communicate their contents to you for your information. He added that in future he intended to transmit to the American Government full information with regard to the relations of France with China and Japan. I thanked Chauvel and said that I was certain that my Government would greatly appreciate being fully informed.

The telegram of the French Ambassador to Tokyo, Arsène-Henry, dated November 30 to his Government stated that he had called on the Japanese Minister for Foreign Affairs, Admiral Nomura, at the latter's request. Nomura had then read to him a seven page written document which had been translated rapidly by a Japanese interpreter. An *aide-mémoire* embodying the contents of this document had been handed to him at the close of his conversation with the Japanese Minister for Foreign Affairs. Since the text was too long to be telegraphed *in extenso* he was sending it by pouch and was merely transmitting a résumé.

The substance of the résumé was the following:

The Japanese Government accused the French Government of continuing to ship arms and ammunition by way of the railroad through Indo-China to the Government of Chiang Kai Shek. The Japanese Government desired to have most friendly relations with the French Government but the action of the French Government in permitting shipments of arms and ammunition over the French railroad was preventing the establishment of such relations. It was to prevent shipments to China that the Japanese Government had made the recent attack on Nanning. If shipments of military supplies to the Government of Chiang Kai Shek over the railroad through Indo-China should cease and if the French Government should cease to give other support to the Government of Chiang Kai Shek the Japanese Government could assure the French Government that incidents of all sorts in the neighborhood of French Indo-China would cease. The Japanese Government intended to carry on operations against Chiang Kai Shek until his complete defeat. It intended to cut all avenues by which he might be supplied. In order to make certain that military supplies should not reach Chiang Kai Shek by way of the railroad through Indo-China the Japanese Government desired to send to Indo-China as recognized officials a Japanese diplomat and a high ranking officer of the Japanese Army to inspect the shipments going forward to China over the French railroad through Indo-China.

The French Ambassador stated that immediately he had protested against the statement of the Japanese Foreign Minister that military supplies were going forward to the Chinese Government over the railroad through Indo-China. This was not so and no amount of reiteration by the Japanese Government could change the fact that it was not so. He could not comment on the remainder of the Minister's

⁹⁵ French Ambassador in the United States.

statement, which had been read to him rapidly, until he had had a chance to examine it with care.

In asking for instructions the French Ambassador in Tokyo stated that it was his belief that the position taken by the Abe⁸⁸ Government was becoming more insecure daily. Moreover the leaders of the Japanese Army were faced with the necessity of having to admit that they could not terminate the "Chinese". Moreover, the Japanese Government had been unable to come to terms with Wang Ching Wei and now was pessimistic with regard to the possibility of setting up a so-called Chinese Government under Wang Ching Wei. The Japanese Diet was to meet in 5 or 6 weeks and there would be serious opposition at that time to the Government.

It was the opinion of the French Ambassador in Tokyo that the Japanese Government desired to divert attention from the failure of the army to terminate the war in China by starting a spectacular controversy with France.

On December 7 the Quai d'Orsay over the signature of Daladier instructed the French Ambassador in Tokyo to say to the Japanese Minister for Foreign Affairs that the accusation of the Japanese Government that military supplies were going forward to China over the railroad through Indo-China was entirely untrue; that if the Japanese Government desired to take up complaints against the French Government, the French Government also desired to take up a large number of complaints against the Japanese Government, notably complaints concerning the Island of Hainan, the Spratly Islands, the Yangtze Valley, et cetera, et cetera. The French would be glad to have all the complaints of both the French and Japanese Governments against each other taken up at the same time.

The French Government would not receive in any official capacity in Indo-China a representative of the Japanese diplomatic service or a high ranking officer of the Japanese Army. The Japanese Consul General in Indo-China was the proper representative of the Japanese Government. If on the other hand the Japanese Government should desire to send to Indo-China in an entirely private capacity without authority or rights of any sort members of the government services the French Government would accord them visas.

Yesterday the French Ambassador in Tokyo telegraphed that he had communicated the contents of this instruction to Admiral Nomura and that the conversation had been pleasant and even intimate.

It was his impression that Admiral Nomura was somewhat uncertain about the future. He had derived the impression that Nomura was glad that the Soviet Union had attacked Finland for the simple reason that the irresponsible [*war with ?*] Finland meant that the Soviet Union would be occupied elsewhere than in the Far East.

⁸⁸ Gen. Nobuyuki Abe, Japanese Prime Minister.

In commenting Chauvel said that he was still of the opinion that while the Japanese and the Russians might reach an agreement with regard to the fisheries and the oil of Sakhalin in [*sic*] and even make a more far reaching commercial agreement there was no likelihood at the moment of a Japanese-Russian nonaggression pact. On the other hand the same elements in the Foreign Office which had supported the anti-Comintern Pact were now advocating a pact with the Soviet Union. He believed that the efforts of these elements would be without result so long as conversations should continue between the American Ambassador in Tokyo and the Japanese Minister for Foreign Affairs.

It was his feeling that it was important for the American Ambassador in Tokyo to maintain constant contact with the Japanese Minister for Foreign Affairs even though the subjects discussed might be of minor importance.

Chauvel said that the Chinese Ambassador in Paris 2 days ago had called at the Quai d'Orsay and made the statement that in the opinion of the Chinese Government the proper riposte to the seizure of Nanning by the Japanese would be a military alliance between France and China and immediate military cooperation between forces of the French Government in Indo-China and the Chinese Government.

He had replied to the Chinese Ambassador that this proposal seemed to him far from reality. The reality was that one of the routes of supply of the Chinese Government had been cut. The question was therefore one of increasing routes of supply. The French Government was prepared to cooperate in the construction of another road from Indo-China to China which would facilitate the shipment of supplies to China. The French Government was not prepared because of the seizure of Nanning to take the action suggested by the Chinese Government.

In discussing the general question of supplies to China, Chauvel said that there were now on the docks at Haiphong 120,000 tons of supplies consigned to the Chinese Government. Since the railway through Indo-China could carry only 12,000 tons a month the full capacity of the railroad for 10 months would be absorbed by supplies already on hand in Indo-China. The American trucks had been going forward over the railroad roadbed to Nanning and they had not gone forward empty. The question of establishing another road therefore was important.

Chauvel concluded by saying, with complete sincerity, that at the present time no military supplies whatsoever were being shipped to the Chinese Government by way of the French Railroad through Indo-China. All military supplies were being shipped over the Burma Road or over the Chinese-Soviet frontier.

893.24/666 : Telegram

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

WASHINGTON, December 14, 1939—6 p. m.

1520. Your 2967, December 13, 4 p. m. Department appreciates having your full report. Please say to Chauvel that we appreciate his volunteering the full information and comments therein reported on. Say also that the Grew-Nomura conversations seem likely to continue over an extended period, and that we hope that the policies of other countries concerned will parallel ours and contribute to the production and maintenance of a favorable atmosphere.

HULL

893.24/668 : Telegram

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

PARIS, December 15, 1939—4 p. m.

[Received 6:45 p. m.]

2981. I communicated the contents of your 1520, December 14, 6 p. m., to Chauvel this afternoon. Chauvel said that there were no new developments of importance in the relations between France and Japan. The spokesman of the Japanese Foreign Office had stated to journalists that the French Ambassador in Tokyo, Arsène-Henry, had given an explanation of the transit of August 14 over the French railroad through Indo-China which had not been satisfactory to the Japanese Government.

The French Government had instructed the French Ambassador in Tokyo to protest in the strongest terms to the Japanese Minister for Foreign Affairs against this distortion of the truth.

The truth was that the French Ambassador had protested warmly against the allegation that arms and munitions were going forward to the Chinese Government over the railroad (see my 2967, December 13, 4 p. m.).

BULLITT

893.20/708

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the First Secretary of the Chinese Embassy (Tsui)

[WASHINGTON,] January 3, 1940.

I asked Mr. Tsui to call in reference to the subject matter of his conversation with Mr. Ballantine⁹⁷ on December 27 relating to the

⁹⁷ Joseph W. Ballantine, Assistant Chief, Division of Far Eastern Affairs.

Chinese Government's desire to obtain the services of American aviators as instructors for the Chinese Government's Aviation Academy at Kunming.

I told Mr. Tsui, with regard to officers on the active list of the American Army or Navy or with regard to reserve officers, that we should prefer to receive no request in the matter from the Chinese Government and that if we did receive such a request our attitude would have to be unfavorable. With regard to persons not connected with the American Army or Navy, I told Mr. Tsui that this was in our opinion a private matter between the Chinese Government and the American individuals. I said that I assumed that there was not involved any question of American citizens enlisting in the combat forces of the Chinese Government or participating in hostilities. Mr. Tsui said that this assumption was correct. I then suggested that the Chinese Embassy might care to get in touch with Colonel Jouett of the Aeronautical Chamber of Commerce. I said also that I had heard that Colonel Chennault, who is employed by the Chinese Government as an aviation adviser and instructor, was now in this country and might be of some assistance to the Chinese Government and the Chinese Embassy in their desire to obtain the services of properly qualified persons.

M[AXWELL] M. H[AMILTON]

NOTE: I had previously discussed this matter with Mr. Hornbeck who had expressed concurrence in the nature of the replies which I made to Mr. Tsui.

M. M. H.

NAVAL MEASURES TAKEN BY CHINA AND JAPAN ALONG THE COASTS AND IN THE RIVERS OF CHINA; EFFECT ON AMERICAN AND OTHER SHIPPING⁸⁸

893.811/1071: Telegram

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

SHANGHAI, January 3, 1939—5 p. m.

[Received January 4—8 a. m.]

8. Abend of *New York Times* has informed us that he has been informed by three highly placed Japanese diplomatic and military representatives and asked to cable home a story indicating that the Japanese authorities had planned to reopen a portion of the Yangtze River in October but that the publicity given to the American protest of October 6⁸⁹ and subsequent publicity given to the firming of the attitude of the American Government has retarded partial reopening

⁸⁸ Continued from *Foreign Relations*, 1938, vol. IV, pp. 143-209.

⁸⁹ *Foreign Relations*, Japan, 1931-1941, vol. I, p. 785.

of the river since such action would appear to be yielding to American and British pressure. Mr. Abend also stated he ascertained that the Japanese are considering reopening the river as far as Wuhu some time this month and that the plan is to institute a system of convoys for foreign merchant vessels. Abend appears to be uncertain whether to despatch this story.

The above is being reported as a matter of information and as indicating that the Japanese are perhaps giving serious consideration to the question of partial reopening of the Yangtze River. I might add that Captain Mitsunobu, Japanese naval spokesman at Shanghai, during the course of a recent conversation with a member of my staff mentioned that the Japanese naval authorities here are giving consideration to the reopening of the lower portion of the river to foreign commercial vessels.¹

Repeated to Peiping, Chungking, Nanking and Hankow. Code text by air mail to Tokyo.

GAUSS

393.115/550 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, January 17, 1939—5 p. m.

[Received January 18—7 a. m.]

18. Japanese are requiring all small craft including foreign launches to obtain permits from Japanese Navy Special Service Section in order to move in Hankow harbor. Standard Oil Company have requested my advice and possible assistance in applying for permits for company's launches, et cetera.

In my opinion this office should not apply for permits on behalf of American firms nor should it advise firms to apply direct. Understand this is also British attitude.

Repeated to Shanghai and Chungking.

JOSSLYN

393.115/551 : Telegram

The Secretary of State to the Consul General at Hankow (Josselyn)

WASHINGTON, January 20, 1939—4 p. m.

8. Your 18, January 17, 5 p. m. The Department is of the opinion that it would be preferable for the Consulate General not to apply to the Japanese authorities for permits on behalf of American firms in connection with the operation of their vessels in Hankow harbor. It is suggested that you inform the concerned American firms, if you are approached by them, that while the American authorities are

¹ See also pp. 348 ff.

prepared to render them all practicable assistance with regard to the protection of their rights and interests and the conduct of their businesses, the question of meeting the Japanese requirement is one for decision by them, on the basis of a realistic view of the situation, as the directly concerned parties.

HULL

793.94/14630 : Telegram

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

CANTON, January 20, 1939—6 p. m.

[Received 9 : 30 p. m.]

13. Reference is made to my despatch number 4, December 30 and my telegram No. 6, January 5, 6 p. m.² Information given me in confidence this morning by my British colleague was to the effect that, acting under instructions from his Government, he informed the Japanese Consul General on January 17 that Japanese transports flying the commercial flag and the transport pennant will be permitted in moderate numbers, upon giving 48 hours notice, to call at Hong Kong for the landing and taking on of passengers subject to the customary requirement for passports, passenger lists, et cetera.

Although not made as a contingent concession it is believed that the changed attitude on the part of the British will greatly enhance the prospects of an early settlement (as desired by the British) of the matter of the operation of fairly frequent passenger service by commercial vessels between the two ports pending opening of the river to general commercial traffic. The Japanese Consul General has suggested as the basis for the operation of such a service a ratio of one call of a British vessel at Canton to two calls of the Japanese transports at Hong Kong. No Japanese transports have thus far called in Hong Kong. By special agreement a British passenger ship came to Canton January 11 and returned to Hong Kong 17th.

The Japanese Consul General according to my British informant is prepared to discuss opening of rail communications to Hong Kong provided a suitable formula (which will not prejudice the Japanese stand toward operation of railways elsewhere in China) can be found and exploratory conversations are expected to take place shortly. This change in the Japanese attitude (which has opposed early resumption of traffic on the Kowloon-Canton Railroad) may have been induced by realization that the line could be used for many months only for passenger traffic due to demolition of bridges.

Repeated to Chungking, Peiping, Shanghai. Shanghai please repeat to Embassy at Tokyo.

MYERS

²Neither printed.

893.811/1080 : Telegram

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

SHANGHAI, January 24, 1939—8 p. m.

[Received January 25—7:45 a. m.]

70. I returned yesterday afternoon from my trip with the Admiral³ to the Yangtze River ports of Chinkiang, Nanking and Wuhu. The trip was without incident. There are numerous military transports and supply ships passing up and down the river, there are huge stores of military supplies at the several ports, but no troop movements were noted. The Japanese garrisons at the river ports and towns are understood to be small and they seldom venture far outside the ports. Lines of communication from the ports to interior places are understood to be subject to frequent interruption. In short, while the Japanese forces hold the river and the towns and ports on the river they have not penetrated deeply into the country off the main lines of communication, the interior of the area has largely been shut off from ready access to the towns and ports, and the situation is more or less at a standstill.

2. Chinese are gradually returning from the countryside to the towns and ports and the population is now estimated at about two-thirds of normal at such places. Many have returned because of lack of means longer to support themselves in the interior; others, because of the increasingly disturbed conditions in the countryside due to bandit and guerrilla operations. Puppet municipal regimes under Japanese supervision have been set up and are commencing to function and to provide limited police and other services. Shops and minor business activities are resuming on a small scale; but there is no substantial trade and the residents of the ports are living a more or less hand to mouth existence. Communications with interior places are disrupted or restricted, there is little outward movement of crops, and practically no inward movement of stocks for sale. At Nanking and Wuhu there are a number of small Japanese shops established with stocks of cheap Japanese goods, no thriving trade and there is little evidence of commercial activity or preparation on the part of the Japanese or the Chinese looking to early operations on a substantial scale at the river ports.

3. Outside of our officers and two American Oil Company representatives at Nanking, the Americans resident at the three ports visited are missionaries engaged principally in medical work and refugee relief activities, other mission work having largely been suspended. There are about 20 adult Americans at Chinkiang and 22 at Wuhu. At Nanking there are about 46. They must have Japanese military passes to reside and to come and go outside the ports but they

³ Adm. Harry E. Yarnell, Commander in Chief, U. S. Asiatic Fleet.

are generally free to move about within the non-military areas of the ports and to carry on their mission work without interference. There have been occasional minor instances of friction with the Japanese but on the whole the situation is stated to have improved and is now not unsatisfactory.

4. While there appears to be no good reason why foreign flag merchant vessels should not be permitted to ply at least as far as Wuhu and perhaps up to Hankow, I am convinced that it will be many months before it will be possible to carry on trade in any substantial volume on the river. The military situation in the vast areas back of the river ports and towns must be solved before crops can move freely from the interior to the ports and stocks be distributed throughout the areas back of the ports. Even if trade with the river ports were now permitted it would be a small trade with communities leading a more or less hand to mouth existence. I do not believe that foreign firms would find it advisable to move any large stocks to the river ports or to try to distribute them from such ports further into the interior.

5. Reports on conditions in the interior areas are conflicting. There are indications that in some sections so-called guerrilla operations have degenerated into bandit activities. Competent observers comment on the fact that the reportedly large guerrilla forces left in the area behind the Japanese lines in this area have apparently inflicted so far little damage on the Japanese positions, lightly held and vulnerable.

By mail to Tokyo and Tokyo [*Peiping?*].

GAUSS

893.811/1092 : Telegram

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

CANTON, February 5, 1939—4 p. m.

[Received February 5—2 p. m.]

21. The Pearl River has been closed as from February 3 on account of military operations. This action which prevents movement of gunboats between Canton and Hong Kong may it is surmised indicate the withdrawal of some local Japanese units from this area for use in operations against Kwangsi Province or the initiation of minor operations in the delta. The recent Japanese occupation of Weichow Island in Gulf of Tongking would seem to lend weight to first possibility.

Indications are that the river will be opened on or about February 10. Repeated to Chungking, Peiping, Hong Kong.

MYERS

893.811/1096 : Telegram

*The Consul General at Canton (Myers) to the Secretary of State*CANTON, February 10, 1939—6 p. m.
[Received February 10—10:32 a. m.]

22. Reference my 21, February 5, 4 p. m. The Pearl River was reopened for movement of foreign warships as from this morning. The landing of Japanese troops on Hainan⁴ seems to explain closure of the river.

Repeated to Chungking, Peiping.

MYERS

793.94/14708 : Telegram

*The Consul General at Shanghai (Gauss) to the Secretary of State*SHANGHAI, February 16, 1939—1 p. m.
[Received February 16—10:55 a. m.]

124. A letter dated February 15, addressed by the Japanese Consul General to the Senior Consul quotes the following notice received by him from the Japanese naval authorities:

“The Imperial Japanese Navy has decided to start shortly an operation at Haimen at Taichow Bay, Chekiang Province, and its vicinity. It is therefore requested that all the vessels of third powers now at or near Haimen should evacuate by sunset on the 17th of February 1939 to a distance sufficient to avoid danger, at least outside a radius of 30 nautical miles of Haimen.

The Imperial Japanese Navy will not hold themselves responsible for any loss or damage sustained by any vessel remaining within the aforesaid region after the specified time.”

Interested American firms notified.

Repeated to Chungking, Peiping and Tokyo.

GAUSS

793.94/14748 : Telegram

*The Consul General at Canton (Myers) to the Secretary of State*CANTON, February 25, 1939—10 a. m.
[Received February 25—2 a. m.]

32. In notification dated February 23 to the Senior Consul at Canton the Japanese Consul General stated

“that military operations are now under way in the area in and around Hoihow, Hainan Island, and therefore it is requested that not only merchant vessels but warships of third powers refrain from entering the port of Hoihow for some time.

⁴ See also pp. 103 ff.

If, however, there arises any special necessity for a warship to enter the said port, at least 48 hours previous notice is requested to be given to the appropriate Japanese authorities for agreement, notifying them the proposed date, and time of arrival at and sailing from the said port together with any such special reasons for doing so.

I have further the honor to state that the third power warships entering the port of Hoihow must do so at their own risks."

Repeated to Chungking, Peiping, Hong Kong.

Hong Kong please inform Comsopat.⁵

MYERS

793.94112/230: Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, March 2, 1939—2 p. m.

[Received March 2—7:30 a. m.]

41. Referring to my telegram 21, dated January 30, 9 a. m.,⁶ this Consulate has just received from the Japanese Consulate General a letter reading as follows:

"At the instance of the Japanese authorities, I hasten to inform you that it has become peremptory from the necessity of naval operations to request all the vessels of the third powers to stay away from the district within a radius of 40 nautical miles of the mouth of the Sheyang River, Kiangsu Province, by sunrise of the 4th March 1939. It has also to be made clear beforehand that the Japanese Navy is not in a position to take responsibility for any loss or damage that may be caused to the vessels of the third powers by disregarding, intentionally or otherwise, the above mentioned warning.

"I have the honor therefore to request you to be so inclined as to transmit the above information to the interested parties under your jurisdiction."

Shanghai please inform Commander-in-Chief.

SOKOBIN

893.811/1105: Telegram

The Consul at Hankow (Jarvis) to the Secretary of State

HANKOW, March 20, 1939—3 p. m.

[Received March 20—3 p. m.]

65. Japanese controlled vernacular press reported March 15 joint promulgation by Japanese Navy and Army Special Service Sections of regulations controlling navigation on Yangtze between Hukow, Kiangsi, and Yochow, Hupeh, on Han up to Hanchuan and on Poy-

⁵ Commander, South China Patrol, U. S. Asiatic Fleet.

⁶ Not printed.

ang Lake. Navy prohibited all vessels, including even sampans, unless provided with a permit issued by Navy and Army Special Service Sections. Violation of provision requiring permit punishable by confiscation of vessel and cargo. Garrison units responsible for inspection of vessels. Permit application procedure established for Japanese and Chinese but not other nationals.

Repeated to Chungking, Peiping, Shanghai.

JARVIS

793.94/14845 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 29, 1939—2 p. m.

[Received 11:40 p. m.]

223. Following is Embassy's translation of a [note] from the Ministry of Foreign Affairs dated March 28 and received today:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that it has received a communication from the Military Affairs Commission to the effect that Japanese naval vessels are constantly creating disturbances in the Haimen region of Chekiang Province, thus rendering it impossible for merchant vessels to pass, that, in order to avoid incidents, the area was blocked beginning March 26, and that warships and merchant vessels of all nationalities are not permitted to proceed thereto.

The Ministry, in inditing this note for the Embassy's information, has the honor to request that the American Embassy instruct all warships and merchant vessels under its jurisdiction to take note."

Shanghai and Hong Kong please communicate the substance of foregoing to appropriate American naval authorities and shippers.

Sent to Shanghai, Hong Kong. Repeated to Peiping, Foochow.

PECK

893.811/1114

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

No. 18

NANKING, April 3, 1939.

[Received May 8.]

SIR: I have the honor to refer to the general question of Japanese monopolization of commercial shipping on the Yangtze River, and to give below certain information which has become available with respect to the control being enforced, under Japanese direction, over all nonsteam craft engaged in transport services on the Yangtze River, over lighters operating in the several harbors along that river and over the harbor facilities of those several river ports. Of interest in that connection is the clear indication that the control thus exercised is

conceived for the express purpose of fostering Japanese shipping on the Yangtze River.

There is enclosed a translation ⁷ of a mimeographed document in Japanese which purports to describe the organization, functions and objectives of the "Nanking Transport Company". A survey of that document indicates that the following principal objectives were envisaged through the organization of the company :

1. Strict supervision over sailing craft on the Yangtze River with a view to preventing their operation from offering competition to Japanese steamship services.

2. Relegation of sailing craft on the Yangtze River to the role of feeders to the principal ports, beyond which, Japanese steamship services are available.

3. Preventing any assistance being given to hostile Chinese forces by Chinese-owned or -operated sailing vessels.

4. Control for the benefit of Japanese shipping of river harbor facilities, including cargo lighters, warehouses and wharves.

According to a Japanese representative of the firm, the aforementioned document was prepared some months ago when the firm was being organized. He added, however, that the organization, functions and objectives of the firm remain substantially unchanged although certain adaptations to prevailing circumstances have been found necessary. According to the company representative, the firm is now operating in the section of the Yangtze River between Shanghai and Wuhu although the ultimate expansion of its sphere of activities to Hankow is definitely contemplated. He explained that so far emphasis has been laid principally upon the supervision and control of the movements of sailing craft which continue to be operated by their Chinese owners and he intimated that the imposition upon those craft of license fees or fees for supervision was being found necessary to defray expenses incurred by the organization in the performance of its regulatory functions.

It was admitted by the representative of the Nanking Transport Company that there exists a close relation between his organization and the (Japanese) Nisshin Kisen Kaisha (which latter shipping firm has operated extensively for many months on this part of the Yangtze River). It has not been ascertained, however, whether this is tantamount to complete dictation of policy and control over the activities of the Nanking Transport Company by the Japanese shipping firm, for the latter's benefit, or whether some measure of autonomy has been retained by the Nanking Transport Company.

While the avowed purpose in organizing the Nanking Transport Company was to foster the development of Japanese shipping enterprise on the Yangtze River, it cannot be foreseen with any certainty

⁷ Not printed.

how its operation will ultimately affect river shipping. The apparent intention to concentrate more completely in Japanese hands control of all shipping facilities through the elimination of competition from even the typically native Chinese shipping enterprise, appears to offer little encouragement for the view that a voluntary relaxation of the Japanese commercial shipping monopoly on the Yangtze River is being seriously contemplated. Moreover, it will be a matter of the greatest economic significance, to all parties interested in the commercial life of this area, if an effective Japanese monopoly of all transport facilities leading into and out of the Yangtze basin is achieved.

It has not yet been learned in what manner sanction has been obtained from either the Japanese authorities or the Japanese-sponsored Chinese regimes in this area for the exercise of the large regulatory powers contemplated in the organization of the Nanking Transport Company. It may be safely assumed, however, that such official sanction must precede the application of the contemplated measures of control, or that the actual impetus for the establishment of the organization comes from official sources.

Respectfully yours,

For the Consul General at Shanghai:

O. EDMUND CLUBB
American Consul

793.94112/239 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, [undated.]

[Received April 12, 1939—4:30 a. m.]

Following is Embassy's translation of note from the Ministry of Foreign Affairs dated April 10, received night of April 11.

"The Ministry of Foreign Affairs has received a communication from the Military Affairs Commission stating that the harbor of Ningpo in Chekiang Province has been closed to shipping, that Chinese and foreign vessels are forbidden to enter or leave the port and that this prohibition may not be relaxed without orders from the Commission. The Ministry requests that the American Embassy take note of this communication and transmit it to all American naval and merchant vessels."

Sent to Shanghai. Repeated to Commander in Chief, Canton, Foo-chow, Amoy and Swatow.

PECK

893.811/1115 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, May 10, 1939—4 p. m.

[Received May 10—10 a. m.]

322. The Embassy has today received a note from the Foreign Office quoting a communication from the Military Affairs Commission to the effect that the mouth of the West River in Kwangtung has been closed and that the entrance and exit of Chinese and foreign vessels is prohibited.

Repeat to Embassy at Peiping, Canton, Hong Kong. Latter please notify American naval authorities and shippers at Canton and Hong Kong.

PECK

793.94112/243 : Telegram

The Consul at Foochow (Rowe) to the Secretary of State

FOOCHOW, May 23, 1939—11 a. m.

[Received May 23—10:34 a. m.]

The presence at Sharp Peak anchorage of two Japanese armed trawlers, estimated 100 tons carrying around 40 men, has suspended all shipping for the past few days. Formerly they would appear and depart after a short time but since May 16 they have remained for periods of as long as 48 hours one relieving the other and have fired upon lighters and tugs. Even foreign launches have not ventured beyond the barrier during their presence and it has been impossible to engage Chinese lighter owners and coolies. Several ships have waited days and departed without loading and mails have been held up since May 20. Local businessmen are fearful of completely closed port.

Sent to Peiping. Repeated to Chungking, Shanghai.

ROWE

793.94112/252 : Telegram

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

SHANGHAI, June 1, 1939—6 p. m.

[Received 6:44 p. m.]

451. At Japanese press conference on May 29 Japanese naval spokesman is reported to have intimated that in all probability no more foreign vessels would be stopped and boarded unless they "looked suspicious". The spokesman is further reported to have linked up recent Japanese boarding of foreign ocean liners, including one German vessel, with the alleged abuse of foreign flags and Japanese here

are reported to have officially complained to the French Embassy office here regarding alleged instances in which the French flag was misused. Similar complaints are to be made to the British and American authorities the spokesman is reported to have said.

At the same conference it was announced that effective June 1st five small ports in the Yangtze delta, one in Chekiang and three in Fukien would be closed to shipping and that the Shanghai customs would not issue clearance papers for these ports. The spokesman denied that this was a blockade but stated these ports had been closed to prevent supplies reaching Chinese guerrillas. It is learned from the British Consulate General here that on instructions issued by the Japanese Deputy Commissioner but without the authorization of the British Commissioner of Customs, clearance papers have been refused to a British vessel to proceed from Shanghai to one of the Yangtze delta ports closed by the Japanese. British authorities are reporting the matter to London.

Repeated to Chungking, Peiping. Air mail to Tokyo.

GAUSS

793.94112/253: Telegram

The Consul at Foochow (Rowe) to the Secretary of State

FOOCHOW, June 3, 1939—5 p. m.

[Received 9:25 p. m.]

Reference my despatch No. 84, May 29, 1939 to the Embassy.⁸ Tentative agreement between the Japanese and British senior naval officers present for permitting movement of British launches and lighters at Sharp Peak under certain conditions has been abrogated by the Japanese. Moreover, probably because the British approached the Japanese before consulting the Chinese naval authorities in the matter, Admiral Li Shih Chia, commanding at Mamoi, has refused all applications for permits to pass the barrier. Recently *Jardine* launch bearing a number of foreigners including three American passengers for Shanghai was stopped by Chinese rifle fire and forced to turn back.

As a result the port has been entirely closed for a week. At one time there were 15 ships waiting outside but most of them have departed without discharging or taking on cargoes. There has been no incoming mail since May 24 but efforts are being made to send outgoing mails overland by foot to Swatow and Ningpo.

Local shipping agents have cancelled all sailings. Increasing num-

⁸ Not printed.

ber of Americans and other nationals desiring passage and some cases are urgent.

Sent to Peiping. Repeated to Chungking, Shanghai.

ROWE

793.94/15108 : Telegram

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

SHANGHAI, June 21, 1939—4 p. m.

[Received June 21—7 a. m.]

519. Japanese Consul General has today communicated to Senior Consul for information of consular representatives a notification also dated today from Commander in Chief of the China Seas Fleet reading as follows:

“The Japanese naval authorities have decided to start operations on June 21st, 1939 at Swatow, Kwantung, and its vicinity. It is requested, therefore, that appropriate measures be taken so that all the nationals and vessels of third powers at or near Swatow may evacuate to places sufficiently distant to keep off the areas of operations and that vessels of third powers may not approach to that port.”

Letter from Japanese Consul General continues as follows:

“Furthermore the Imperial Japanese naval authorities wish to draw the attention of third power authorities to the communications the Japanese Minister for Foreign Affairs addressed to the representatives of third powers at Tokyo under date of June 30th [20th],⁹ October 12th¹⁰ and November 7th, 1938.”¹¹

Repeated to Chungking, Peiping, Swatow and Hong Kong. By air mail to Tokyo. Hong Kong please inform United States naval authorities.

GAUSS

811.30 Asiatic Fleet/763 : Telegram

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

SHANGHAI, June 22, 1939—3 p. m.

[Received June 22—10:25 a. m.]

520. Reference my No. 519, June 21, 4 p. m. I have received the following message from the Commander-in-Chief, United States Asiatic Fleet and have communicated it to the Japanese Consul General with the request that he inform the senior Japanese naval authorities:

⁹ See note No. 18 *Go, Asia I*, June 20, 1938, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 602.

¹⁰ See telegram No. 664, October 13, 1938, 4 p. m., from the Ambassador in Japan, *ibid.*, p. 623.

¹¹ See note No. 41 *Go, Asia I, ibid.*, p. 628.

"Please inform Japanese Consul General and request that he inform senior Japanese naval authorities that the paramount duty of United States naval vessels is the protection of American citizens and will go wherever it is necessary at any time to carry out that mission and will remain in such places as long as American citizens are in need of protection or assistance. Every effort will be made to avoid interference with Japanese operations consistent with the above mission. The Commander-in-Chief cannot accept the statement that the Japanese authorities cannot take any responsibility for damages incurred if vessels not withdrawn. It is not considered that this warning relieves the Japanese authorities in the slightest degree of responsibility for damage or injury to United States naval vessels or personnel."

Repeated to Chungking and Peiping. By air mail to Tokyo.

GAUSS

793.94/15130 : Telegram

The Consul at Swatow (Young) to the Secretary of State

SWATOW, [June 27, 1939—9 a. m. ?]
[Received June 26—11:05 p. m.]

30. The commanding officer of the U. S. S. *Pillsbury* has been notified by the senior Japanese naval officer in Swatow that Japanese naval forces are commencing operations today against Wenchow and Foochow and that all third power vessels are requested by the Japanese authorities to leave those areas by noon, June 29th, notification received specifies certain harbor areas which will be blockaded or become otherwise dangerous after time specified. Responsibility for damage to third power vessels if orders to depart not carried out disclaimed by Japanese. Third power nationals are requested to seek refuge elsewhere as soon as possible.

Repeated to Chungking, Peiping, Shanghai, Foochow.

YOUNG

793.94/15136 : Telegram

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

SHANGHAI, June 27, 1939—6 p. m.
[Received June 27—10:35 a. m.]

546. Reference my No. 541, June 27, noon.¹² As the Japanese notification announced that military operations at Foochow and Wenchow would commence today, I have deemed it desirable to inform my Japanese colleague immediately of the American position as set out in

¹² Not printed; it reported in substance the same information given in telegram printed *supra*.

previous instructions from the Department. I have therefore addressed him a letter under today's date stating as follows:

"The statement of your naval authorities has been communicated to the appropriate officers of the American Government. An effort is also being made to communicate with the American citizens at Wenchow, in my Consular District, in order that they may take such precautions as may be possible for their safety.

I must inform you, however, that the notification of your naval authorities cannot be accepted as in any way relieving those authorities or the Japanese Government of full responsibility for any injury to American nationals or damage to American vessels or property.

American nationals and American property lawfully located in China possess certain well recognized rights which are in no way altered by the circumstances of the present conflict. American citizens at Foochow and Wenchow are under no obligation to withdraw from those places, and such withdrawal in any case might be found to be impossible. American property in areas which are made, or are about to be made, theatres of military operations can in most cases not be removed. This is obviously the case in regard to real property.

In order to safeguard American lives and interests precautionary measures were voluntarily advised by American Consular officers some time ago. However, regardless of whether American nationals do or do not take such precautionary measures, the obligation rests upon the Japanese authorities to exert the utmost precaution to the end that American nationals and American property shall not be injured by Japanese military operations."

Repeated to Chungking, Peiping and Foochow and to Tsingtao to inform Commander-in-Chief. Air mail Tokyo.

GAUSS

793.94/15145 : Telegram

The Consul at Amoy (MacVitty) to the Secretary of State

AMOY, June 28, 1939—6 p. m.

[Received June 28—2:20 p. m.]

62. With reference to the Japanese notice regarding evacuation of foreigners, and the proposed blockade of Foochow, Captain Stapler, Commandant United States South China Patrol has requested Admiral Mita¹³ to inform Vice Admiral Kondo in command Japanese Naval Forces South China that: in view non-declaration of war between China and Japan, the contemplated blockade is illegal under international law and the proposed action therefore cannot be accepted. Further, should it become necessary at any time to send naval vessels for the protection of Americans, the responsibility for any damage to United States ships will rest with the Japanese.

MACVITTY

¹³ Chief of Amoy Liaison Office, Japanese Asia Promotion Board.

793.94/15145 : Telegram

The Secretary of State to the Consul at Amoy (MacVitty)

WASHINGTON, July 1, 1939—3 p. m.

21. Your 62, June 28, 6 p. m. The Department notes that in your telegram under reference there is given in specific terms the reason for the Commander of the South China Patrol's nonacceptance of the premise of the Japanese communication, and that the Commander of the South China Patrol in his message 0027-2359 to the Commander in Chief,¹⁴ which the latter approved in his 0028-0945,¹⁴ the Commander of the South China Patrol states his reason in general terms.

It seems to the Department preferable that a statement of reasons be couched when practicable in general rather than in specific terms.

If you have not already done so please repeat your telegram under reference to the American Embassy at Chungking and Peiping.

Repeated to Chungking and Peiping.

HULL

793.94/15161 : Telegram

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

SHANGHAI, July 4, 1939—1 p. m.

[Received July 4—4 a. m.]

560. My 519, June 21, 4 p. m. The Japanese Consul General has communicated to the Senior Consul for information of consular representatives and additional notification dated July 1st from the Japanese naval authorities outlining the procedure governing the entry of third power vessels into Swatow.

1. "The third power vessels is [are?] admitted to the harbor of Swatow, so far as circumstances of military operations permit, at the rate of approximately once in a week. Third powers, whose residents in Swatow are small in number, are requested to take advantage of the vessels above referred to, refraining from despatching their respective vessels."

2. "Only mails and provisions are allowed to be discharged at Swatow."

3. "Vessels thus calling should apply at least 24 hours in advance for the consent of the senior staff officer of the local fleet."

4. "Hours of stay in the harbor should be minimum required and their movements in the harbor should be strictly in compliance with the indications given by the naval authorities on the spot."

I understand there are no American merchant vessels accustomed to call at Swatow and accordingly am taking no action here.

United States naval authorities here being informed.

¹⁴ Not printed.

Repeated to Peiping, Chungking, Hong Kong and Swatow. Air-mail to Tokyo.

GAUSS

793.94/15201 : Telegram

*The Consul General at Shanghai (Gauss) to the Secretary of State*¹⁵

SHANGHAI, July 12, 1939.

[Received July 12—8:35 a. m.]

591. Japanese Consul General has today communicated to Senior Consul for information of Consular representatives a notification dated July 11th from Commander-in-Chief of the Japanese China Seas Fleet, reading in part as follows :

“The Japanese Navy Forces will start military operations against Chunchow, Tungshan and Chaoanhsin (all in Fukien) on Saturday the 15th July 1939 at 8 a. m. (Japan time). It is requested therefore that third power vessels, including men-of-war, to leave these harbors by the time the operations commence. From that time the entrance to each of the harbors above referred to will be closed by means of obstacles and dangerous objects for the necessity of military operations, so that passage into or out of the harbor will become impossible after that hour. The Japanese authorities cannot assume any responsibility for losses, either directly or indirectly, that might be suffered by vessels remaining in the harbors after the said hour.

“Since the areas in the vicinity of each of the above harbors will become zones of hostilities, third power nationals residing in the said areas are hereby requested to evacuate as soon as possible.”

As the American position in regard to notifications of this nature has been made clear to the Japanese authorities on several occasions, I am not replying to the Japanese Consul General's communication but am informing Swatow, Foochow, Amoy and the American naval authorities here.

Sent to Swatow, Foochow, Amoy, repeated to Chungking, Peiping, by air mail to Tokyo.

GAUSS

793.94/15245 : Telegram

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

CANTON, July 22, 1939—1 p. m.

[Received July 22—12:43 p. m.]

80. The Japanese Consul General has informed me that the Pearl River will be closed to all navigation, due to military reasons, for about

¹⁵ A number of similar telegrams were later received from the Consul General at Shanghai reporting other Japanese notifications of military operations with warnings against vessels remaining in specific water areas. In each case the Consul General stated that as the American position regarding operations of this nature had already been made clear, no reply would be made unless he were instructed to do so.

2 weeks probably from night of July 24. *Mindanao*¹⁶ has been informed.

There is reason to believe the military operations indicated will take place in the West River and Pearl River deltas as there has been considerable fighting in that general area recently. Repeated to Chungking, Peiping, Hong Kong.

MYERS

793.94/15261 : Telegram

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

SHANGHAI, July 28, 1939—4 p. m.

[Received July 28—10 a. m.]

661. Japanese Consul General has communicated to Senior Consul a letter dated July 27 referring to previous communications on behalf of the Japanese naval authorities which requested that third power vessels leave the various harbors in South China where military operations were to be started and stated that the Japanese there to¹⁷ were to be closed after scheduled hours. The letter continued:

“I have the honour to state that I have been informed that judging from the experiences on the spots not a few third power vessels appear to have not been well informed of the notifications above referred to.

I have the honour therefore to bring to your notice a list of those harbours thus closed: Foochow, Wenchow, Chunchow, Tungshan, Chaoan, Shani, Hinghwa, Santuaio, Loyuan, Shacheng.

I shall be grateful if you will be good enough to bring the above to the knowledge of our interested colleagues so that they may be able to notify again their respective nationals collectively.”

As the American position in regard to notifications of this nature has been made clear to the Japanese authorities on several occasions, I shall not reply to the Japanese Consul General's communication unless instructed to do so.

I have sent a copy of the Japanese Consul General's letter to the Commander-in-Chief.

Repeated to Chungking, Peiping, Foochow, Amoy and Swatow; by airmail to Tokyo.

GAUSS

¹⁶ United States gunboat of the South China Patrol, U. S. Asiatic Fleet.

¹⁷ Sentence apparently garbled at this point.

893.811/1125 : Telegram

*The Consul General at Canton (Myers) to the Secretary of State*CANTON, August 6, 1939—11 p. m.
[Received August 6—10:20 a. m.]

91. Reference my 80, July 22, 1 p. m. According to a notification from the Japanese Consul General, the Pearl River will be reopened to navigation as from August 7 under the same conditions as existed prior to its closure on July 27.

Repeated to Chungking, Peiping, Hong Kong.

MYERS

793.94/15326 : Telegram

*The Consul General at Canton (Myers) to the Secretary of State*CANTON, August 26, 1939—6 p. m.
[Received August 26—5:56 p. m.]

104. Reference my 102, August 23.¹⁸ Today the press carried a report that a meeting of local merchants will be held August 28 for the purpose of discussing a blockade of Shameen and Hong Kong and that the decision of the meeting will be submitted to the local authorities for appropriate action.

This morning a member of the staff of the Japanese Consulate General called and in referring to press reports in regard to the taking of precautionary measures at Hong Kong, particularly the evacuation of women and children, inquired whether this office had received instructions regarding the evacuation of Americans from Canton. I replied in the negative but mentioned the existence of standing instructions relative to advising Americans to remove from danger zones. In response to my inquiry in regard to press reports of a possible blockade of Shameen he said that he felt certain that the local Chinese and Japanese authorities (the military authorities were not mentioned) are opposed to such a step but that the holding of the meeting would probably not be interfered with.

During the conversation he referred to the situation in Europe and the signing of the German-Soviet Pact¹⁹ and indicated that the Japanese position had been altered as a result of recent developments and that although the Consulate General had received no instructions in the matter he felt that Japan would remain neutral in any eventuality.

In the light of the above and of available information in regard to recent developments I am inclined to the view that no blockade of

¹⁸ Not printed.¹⁹ See pp. 1 ff.; for text of the German-Soviet Pact, signed at Moscow, August 23, see Department of State, *Nazi-Soviet Relations, 1931-1941*, p. 76.

Shameen is intended and that anti-British agitation in this area is likely to decrease.

Repeated to Chungking, Peiping, Hong Kong.

MYERS

893.811/1136 : Telegram

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

HANKOW, October 19, 1939—9 a. m.

[Received 10:15 a. m.]

247. Reference Department's telegram No. 30, February 9, noon to Tokyo²⁰ and subsequent correspondence concerning Japanese restrictions upon navigation on the Yangtze. I have just been reliably informed in strictest confidence that on September 29 last, Japanese transport carrying troops and few foreign travelers was fired upon by Chinese artillery at a point about 20 kilometers west of Wuhu. Three soldiers were killed outright, 12 fatally wounded and 20 others received less serious wounds from shellfire. One non-American passenger was slightly wounded.

This isolated case in support of Japanese contention that river unsafe for foreign commerce has only just been notified to this office in strictest confidence since all passengers were required to sign supplemental undertaking not to disclose anything heard or seen while en route. This Consulate General has received no definite information concerning any other cases of effective attacks on steamers during recent months.

Repeated to Chungking, Peiping and Shanghai.

SPIKER

893.102F/7 : Telegram

The Consul at Foochow (Ward) to the Secretary of State

FOOCHOW, November 15, 1939—noon.

[Received November 15—8:56 a. m.]

On the basis of a Foreign Office appeal from the foreign firms, hospitals, missionary institutions, and individual residents of Foochow addressed to myself and the British Consul that we place before our respective Embassies desirability of arrangement under which one or two foreign ships might call at Sharp Peak monthly to discharge essential medical and other supplies and to transport passengers, this Consulate informally broached the proposition to Admiral Li Shih-chia, who is charged with the defense of the Min River entrance; it was transmitted to the provincial and by them to the central authori-

²⁰ *Ante*, p. 360.

ties, and the admiral has today informed me that the latter have approved the request that two foreign ships be permitted to call at Sharp Peak each month.

Although ships are now calling at fairly regular intervals at Santuao, the port is difficult of access, the service is inadequate, and liable to suspension at any time; the foreign community remains without essential supplies: there is, for instance, a malarial epidemic in Foochow at the present time, and quinine is almost unprocurable at any price. It is submitted as the opinion of this office that it is deeply to the interest of the American residents of this area that this plan be instrumented, and I have respectfully to recommend that if the Embassy perceives no objection, Japanese authorities be asked to place no obstacle in the way of its realization. I have informed British Consul of Chinese Government's accession, and he is also communicating in the above sense with British Embassy.

Sent to Peiping. Repeated to Chungking and Shanghai.

WARD

793.94/15544 : Telegram

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

CANTON, December 15, 1939—6 p. m.

[Received December 15—1:38 p. m.]

155. Reference my 151, December 9, 1 p. m.²¹ Today the Japanese Consulate General informed me that owing to military necessity the West River and its branches will be closed to navigation from the 15th to the 31st and that the Pearl River will be similarly closed from the 17th to the end of the month.

It is thought that this step is the precursor of a considerable troop movement and a push either up the Canton-Hankow Railway which the Japanese have been feverishly repairing recently and along which military operations are continuing to occur, or up the West River in the direction of Kwangsi, the former appearing to be the more likely development. Nevertheless it is possible that the main objective of these operations is Kwangsi.

Repeated to Chungking, Peiping, Hong Kong.

MYERS

793.94112/281 : Telegram

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

SHANGHAI, December 18, 1939—4 p. m.

[Received December 19—1:50 a. m.]

1115. Japanese Consulate General informed this office orally this afternoon that the Japanese Navy and Military will permit the navi-

²¹ Not printed.

gation of the Yangtze by third power commercial shipping as far up as Nanking in the near future under regulations to be announced later.

Repeated to Peiping, Chungking, Tokyo and Nanking.

LOCKHART

793.94112/282 : Telegram

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

SHANGHAI, December 19, 1939—6 p. m.

[Received 7:10 p. m.]

1122. Reference my 1115, December 18, 4 p. m. The following is the statement issued yesterday afternoon by the Japanese military and naval authorities at Shanghai on the reopening of the lower Yangtze:

[“]Conditions along the lower Yangtze River have, of late, permitted a gradual relaxation of the absolute military requirements which have necessitated the closure of the river.

In view of the above and in order to meet this situation, the Japanese military and naval authorities in the field have decided to launch various preparations with a view to reopening the Yangtze below Nanking, subject to restrictions necessitated by military requirements and by measures for the maintenance of peace and order.”

Repeated to Peiping, Chungking and Nanking, by airmail to Tokyo.

LOCKHART

793.94112/287 : Telegram

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

TOKYO, December 21, 1939—7 p. m.

[Received December 21—1:30 p. m.]

697. Our 694, December 20, 2 p. m.²² I refer to the third of the five points enumerated to my British colleague²³ by the Vice Minister²⁴ which are to be discussed in connection with the opening of the Yangtze. Information was brought to me recently that Jardine, Matheson²⁵ have been in touch with a number of Japanese interests concerning a Japanese proposal for pooling foreign shipping on the Yangtze, and that the former were interested in the proposals, especially if American shipping is brought into the pool. I reported the matter by despatch in view of assurances by Craigie that he had ad-

²² Not printed; it gave a paraphrase of a telegram from the British Ambassador in Japan to his Government. The substance of this telegram is given in the British Embassy's *aide-mémoire* of December 26, p. 797.

²³ Sir Robert L. Craigie, British Ambassador in Japan.

²⁴ Masayuki Tani.

²⁵ British shipping firm in China.

vised Jardine against present participation, but reference by Tani to the project indicates that it has assumed important proportions.

My despatch will go forward in the pouch leaving December 23.²⁶
Sent to the Department, repeated to Shanghai.

GREW

793.94112/294 : Telegram

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

SHANGHAI, December 22, 1939—4 p. m.

[Received December 23—5:50 a. m.]

1133. My No. 1123, December 19, 7 p. m.²⁶ In the course of a conversation with the Japanese Consul General this morning I inquired whether he could give me specific information regarding the conditions under which the Yangtze would be reopened to navigation to Nanking, and also as to the date on which it was expected that the new regulations would come into force. Mr. Miura stated that the Japanese authorities were confident that the reopening would take place within 2 months, and in reply to my inquiry as to restrictions which might be imposed he stated that this phase of the matter had not been worked out by the military and naval authorities but that it was the Japanese intention to reduce the restrictions to a minimum; that if the plan worked satisfactorily and if the river is not used to send supplies to Chinese Government troops and guerilla bands the waterway would be open to Hankow after the lapse of a reasonable length of time following the reopening of Nanking. In reply to my inquiry as to why unrestricted navigation could not now be restored as far as Hankow, Miura replied that guerrilla bands were still a menace in some spots and also that it has thus far been found difficult to prevent the river from being used as a source of supply for these bands and for Government troops which can be reached through river connections. He stated that the restrictions to be imposed will be based entirely on military necessity. I pointed out that the real need is for complete restoration of navigation to its pre-hostilities status and emphasized the vital interest which the American Government and the American business community at Shanghai have in the Yangtze problem; that there can be no freedom of trade as long as any restrictions of a military character are imposed on the movement of commerce up and down the river.

Miura inquired how the American business community viewed the Japanese announcement of the proposed reopening of the river, and I said that the announcement had been received with somewhat [apparent omission] unless all restrictions were removed on the river as

²⁶ Not printed.

far as Hankow whereas others felt that at least the opening to Nanking, even with modified restrictions, would improve trade facilities in some commodities and that this would lead to an extension of facilities to Hankow. I told Miura that the unanimous opinion of the American business community, which opinion I shared, was that the river as far as Hankow should be completely opened up with as little delay as possible and without any restrictions whatsoever. The plans for the reopening of the river to Nanking are unquestionably still in a nebulous stage. The mere fact that the Japanese are thinking in terms of 2 months, rather than the immediate future, for the opening of the river seems to denote they [*that?*] they are greatly interested in the effect which the announcement may have on Japanese-American relations and that American reactions may have an important bearing on the future course of events in the Yangtze region.

Repeated to Peiping, Chungking. Code text by air mail to Tokyo.

LOCKHART

793.94112/293 : Telegram

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

CANTON, December 25, 1939—noon.

[Received December 25—1:40 a. m.]

159. Referring to my telegram No. 155, December 15, 6 p. m. The Japanese Consul General has just informed me that from today the Pearl River has been reopened to navigation under the same conditions as existed prior to its temporary closing on December 17, and that the West River and its branches will remain closed until the end of the month.

Sent to the Department. Repeated to Chungking, Peiping, Hong Kong.

MYERS

793.94112/300

The British Embassy to the Department of State

AIDE-MÉMOIRE

On December 18th the Vice Minister for Foreign Affairs in Tokyo made a communication to His Majesty's Ambassador to the effect that the Japanese authorities had decided to make preparations with a view to the lifting of the ban on the navigation of the Yangtze from Nanking downwards, subject to certain restrictions necessary for the maintenance of peace and order and for military operations. It is understood that a similar communication was made simultaneously to the United States Ambassador.

Mr. Tani informed Sir Robert Craigie that this declaration was Japan's answer to those who maintained that her purpose was one of economic monopolization in China. As long as hostilities continued some restrictions on trade were inevitable but the moment was now coming when a period of reconstruction could begin and the first step was to get trade going again on the lower Yangtze.

In reply to Sir Robert Craigie's enquiry Mr. Tani said that the date on which navigation could be resumed depended on two factors: (a) the making of arrangements for handing over of hulks, etc., hitherto occupied for defence purposes; (b) the negotiation of international arrangements governing this resumption of navigation. In confidence he stated that the date by which the Japanese Government hoped that all arrangements would be concluded was some time in February.

As regards (b) the Vice Minister for Foreign Affairs considered that discussions would have to take place primarily with His Majesty's Government as Great Britain having the largest interests on the Yangtze was closely affected. This discussion would be concerned with the following five points:

1. Military Regulations, mainly concerned with safeguards against transport of munitions to enemy forces.

2. Customs House arrangements.

3. Arrangements between shipping interests (a pooling arrangement was contemplated under which dividends would be guaranteed to all thus avoiding unfair advantage being taken of Japan's present inability to participate fully in this trade).

4. Precautions against profits made by Chinese out of resumption of this trade being used for purchase of munitions by the Chinese National Government.

5. Currency arrangements (designed primarily to ensure that the enhanced value of *Fapi*, likely to result from reopening of Yangtze, should not prejudice Japan's present method of meeting her local expenditure in military yen).

Mr. Tani added that it was proposed to apply the same measures *mutatis mutandis* to Pearl River.

The Vice Minister for Foreign Affairs added, in answer to Sir Robert Craigie's enquiry, that the above arrangements were intended to be purely transitory and were quite independent of the emergence of a new central government for China. It was obvious that in the early stages special precautions would be necessary in order to convince the army that the lower Yangtze could be reopened to trade without serious loss of military efficiency; but once trade had started moving and present apprehensions had been shown to be unfounded the restrictions would be progressively reduced.

In informing the State Department of the foregoing communication from the Japanese Government His Majesty's Embassy is instructed to explain that while His Majesty's Government in the United

Kingdom welcome the announcement that the ban on navigation on the Yangtze is to be relaxed, they are disinclined to undertake discussions with the Japanese Government on a matter which concerns other Powers besides themselves or to allow such discussions to be enlarged into the negotiation of any formal agreement. His Majesty's Government would be glad to know whether the Japanese Government have proposed similar discussions with the United States Government and if so what attitude the latter propose to adopt. His Majesty's Government for their part feel that the suggested conversations should be capable of being restricted to the necessary practical arrangements for the preparation of the resumption of navigation.

WASHINGTON, December 26, 1939.

798.94112/298 : Telegram

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

CANTON, December 31, 1939—4 p. m.
[Received December 31—6:06 a. m.]

162. Referring [to] my 6, January 5, 6 p. m., and my 160, December 29, 4 p. m.,²³ ultimate paragraph. According to information received from the Commissioner of Customs, the Japanese Consulate General advised him that the Pearl River will probably be opened within a few months for steamer commercial traffic during the daytime and suggested that the appointment of the Japanese staff referred to in the first telegram under reference be made; that the customs will be permitted to resume revenue collection functions at Canton but will be obliged to apply the new tariff which is in force at other occupied ports; and that the customs will not be permitted to function at Whampoa which will continue to be used for military purposes.

As a matter having no connection with the above it has been learned from the same source that the Japanese authorities are endeavoring to arrange with Hong Kong for the transportation of cargo between Hong Kong and Canton by Japanese river steamers now carrying passengers and that if the arrangement is made the vessels will immediately come under customs control.

Repeated to Chungking, Peiping, Hong Kong.

MYERS

798.94112/300

The Department of State to the British Embassy

AIDE-MÉMOIRE

The Government of the United States appreciates receiving the detailed information contained in the British Embassy's *aide-mémoire*

²³ Neither printed.

of December 26, 1939, in regard to the question of reopening to navigation the Yangtze River from Nanking downwards.

On December 18, 1939, the Japanese Minister for Foreign Affairs informed the American Ambassador to Japan²⁹ that it was the intention of the Japanese Government to open the Yangtze River to general navigation as far as Nanking within about two months' time. The Minister stated that, for the time being, certain restrictions would probably have to be imposed on such navigation owing to military operations. He indicated that the delay involved was due to the need for certain military adjustments and to the necessity for consultation with various powers. He did not, however, propose discussions along the detailed lines indicated in the British Embassy's *aide-mémoire*.

The Government of the United States shares the view of the British Government that any conversations that may be required should not be enlarged into the negotiation of any formal agreement. This Government considers that for its part any needed conversations should be restricted to necessary practical arrangements concerning subjects such as the handing over of hulks, et cetera, and should not involve any question of curtailment of any of its rights or of the rights of its nationals.

WASHINGTON, January 2, 1940.

**EFFORTS BY THE UNITED STATES AND OTHER POWERS TO PROTECT
CHINESE CUSTOMS AND OTHER REVENUES, PLEDGED AS SECURITY
FOR LOANS, FROM JAPANESE ENCROACHMENT³⁰**

693.002/802 : Telegram

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

TOKYO, January 2, 1939—noon.

[Received January 2—8 a. m.]

3. Embassy's 788, December 17, 11 a. m., 1938,³¹ Canton Customs. My British colleague³² has just sent me the following letter:

"I have now received instructions to contest the argument, contained in the Japanese Government's reply to my note of the 24th November about the Canton Customs, that since the Canton area is now under the occupation of the Japanese forces the Japanese Government cannot accept this protest.

²⁹ See telegram No. 687, December 18, 10 p. m., from the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. II, p. 48.

³⁰ For previous correspondence on the maintenance of the integrity of the Chinese Maritime Customs and Salt Revenue Administrations, see *Foreign Relations, 1938*, vol. III, pp. 626 ff., and *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 729 ff.

³¹ Not printed.

³² Sir Robert L. Craigie, British Ambassador in Japan.

I am to take the line that occupation of the area by the Japanese forces affords no justification for taking over the customs. While the Customs Administration is an organ of the Chinese Government, it is invested with an international status both on the ground that it is the subject of international agreements (e. g. the Peiping Protocol of 1901³³ to which Japan is a party) and because of the important international interests which it was designed to protect. Third powers have at all times been willing to discuss customs questions with the Japanese Government and they have in recent months frequently had occasion to point out the importance which they attach to recognition of the international status of the administration. The Japanese Government have on several occasions given assurances that they do not intend to destroy its integrity, and their present attitude is utterly at variance with their assurances. In these circumstances I am to ask again for an assurance that control of the Canton customs will be restored to the Inspector General of Customs.

Before addressing a note on the above lines to the Japanese Government, I should be grateful if you would let me know whether you are intending to reply to the similar note which the Japanese Government addressed to you on the subject, and if so on what lines?"

Please instruct. Repeated to Chungking, Peiping, Canton.

GREW

693.002/802 : Telegram

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

WASHINGTON, January 4, 1939—7 p. m.

2. Your 3, January 2, noon, Canton customs. In view of the information contained in Canton's 80, December 13, 6 p. m.,³⁴ which Shanghai was requested to repeat to you, the Department has not felt inclined to reiterate its position as outlined in your note of November 24, 1938, to the Japanese Foreign Office.³⁵

If, however, after consultation with your British and French colleagues, you and they feel that rejoinders at this time would be likely to serve a useful purpose, the Department authorizes you in your discretion to make a separate informal approach along the general lines of your note of November 24, 1938, avoiding, however, any reference to "the international status" of the Chinese Maritime Customs. The Department suggests that in any approach that the Embassy may make an endeavor be made to avert publicity.

Repeated to Chungking, Peiping, and Canton.

WELLES

³³ Signed at Peking, September 7, 1901, *Foreign Relations, 1901, Appendix (Affairs in China)*, p. 312.

³⁴ *Ibid.*, 1938, vol. III, p. 750.

³⁵ *Foreign Relations, Japan, 1931-1941, vol. I, p. 746.*

693.022/807 : Telegram

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

TOKYO, January 13, 1939—2 p. m.
 [Received January 13—1:48 p. m.]

22. Department's 2, January 4, 7 p. m., via Shanghai, Canton, Customs Administration.

1. My British colleague has just now received a report from the British Consul General at Canton to the effect that the general position in Canton seems to him to be no worse than at other occupied ports except for closure of the port to trade. The British Consul General has been repeatedly told that there is no intention to impair the integrity of the customs which will be permitted full functions when it suits the Japanese to reopen trade. This present report seems in general to be confirmatory of Canton's 80, December 13, 6 p. m. Craigie therefore now agrees with us that there no longer exists a case for parallel representations on the ground that the situation at Canton is worse than other occupied parts.

2. Craigie now proposes, however, that we should make formal parallel representations, along with the French Ambassador, protesting the declaration of the Japanese in their reply of December 16, 1938³⁶ (see our 788, December 17, 11 a. m.³⁷ A similar reply was received by Craigie) that "since the Canton area is at present occupied by the Imperial Army, it is proper that the Canton Maritime Customs be placed under the authority of the Japanese Army of Occupation". In fact he has instructions to make such representations (see our 3, January 2, noon) on the ground that this declaration should not be allowed to pass without challenge and he feels that his hand would be greatly strengthened if the French Ambassador and I could support him.

3. All of our representations up to date to the Japanese Government with respect to interference with the Chinese Customs at various ports by the Japanese Army authorities have consistently and implicitly protested action deriving from no cause other than that of action and operations by the Japanese military forces. My own feeling, therefore, is that for the present and unless or until there are some unforeseen developments, we have adequately covered the field, and that it would be well to avoid the inevitable irritation caused by continual repetition of formal representations with regard to this and other Japanese encroachments on our interests in China. Our position is clear on the records. I do not believe that the formal representations proposed by my British colleague would bring favorable practical results.

³⁶ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 747.

³⁷ Not printed.

4. Nevertheless, I feel that so far as reasonable we should keep in step with the British and French on this issue, which action in itself serves a useful purpose, and since Craigie considers it of the utmost importance that the argument advanced in the Japanese notes of December 16 be not allowed to pass unchallenged, I have made the compromise proposal that instead of writing notes we take occasion when next we respectfully [*respectively?*] see the Foreign Minister²⁸ to observe orally that our respective Governments cannot accept the Japanese contention that military occupation of the Canton area affords justification for taking over the customs. As such an approach can be made informally and as publicity will almost certainly be avoided, I understand that authority for such action on my part is contained in the Department's 2, January 4, 7 p. m., Craigie, in spite of his instructions, has accepted this proposal. I am informed that our French colleague will follow whatever action Craigie and I agree upon.

5. In this connection it would be helpful to me to learn the reasons which occur to the Department for avoiding any reference to the "international status" of the Chinese customs upon which our own previous representations concerning the Chinese customs have been based and upon which the British and French now propose to base theirs. If the oral representations herein envisaged should be made on premises differing from the British and French representations, I fear that the differentiation might be noticeable to the Foreign Minister and that the effect might tend to detract from an advantage to be gained. Nevertheless if the Department feels strongly on this point reference to the "international status" of the Chinese Maritime Customs can be avoided. Instructions on this point would be appreciated.

GREW

693.002/808 : Telegram

The Consul at Chefoo (Roberts) to the Secretary of State

CHEFOO, January 14, 1939—10 a. m.

[Received January 14—7 a. m.]

3. 1. Chefoo Harbor Office recently organized by the Japanese Navy announced that effective January 15 it will take over from the Chinese Maritime Customs:

"(1), Supervision of pilotage; (2), assignment of berths; (3), control harbor and all vessels entering and leaving it; (4), supervision of quarantine; (5), notifications concerning the harbor; (6), communication with vessels."

2. Masters of vessels are required to deliver on arriving to harbor boarding officer arrival report, passenger list, crew list and import

²⁸ Hachiro Arita.

manifest and on departing to the Chefoo Harbor Office clearance application, passenger list and export manifest.

3. Shanghai please inform Commander in Chief.³⁹

Repeated to Peiping, Tsingtao and Chungking.

ROBERTS

893.51/6778

The Chinese Embassy to the Department of State

TEXT OF A STATEMENT TO BE ISSUED BY HIS EXCELLENCY DR. H. H. KUNG, PRESIDENT OF THE EXECUTIVE YUAN, CHUNGKING, CHINA, ON JANUARY 16, 1939

For over a year the Japanese authorities, despite their assurances, have been detaining all the revenues, pledged for debt service, that have been collected in the areas under their military occupation except for a single remittance from the Shanghai Customs last June. In order to make up the amounts that should have been remitted from those areas the Chinese Government has advanced about 175 million dollars. The Central Bank of China, moreover, has provided all the foreign exchange required, although the Japanese have been interfering with the Chinese currency and forcing the acceptance of several forms of Yen, military and puppet notes which has reduced the collections in legally valid currency on which obligations of the Government are secured.

Notwithstanding all difficulties, the Chinese Government has provided for service of China's debts thereby demonstrating the utmost consideration for the holders of its obligations.

Under existing conditions the Chinese Government very reluctantly has been forced to the conclusion that this situation has become too anomalous to be continued. The Government therefore has been obliged to reject the Inspector General of Custom's request for a further advance. As from this date, however, the Government is prepared to set aside in special accounts in the Central Bank of China a share of the long term debt service, proportionate to the collections in the areas not subject to Japanese interference, of the revenues pledged to all such debts outstanding before the hostilities. It is hoped that remittances of the share attributable to the pledged revenues from the areas under Japanese military occupation may similarly be forthcoming and that interference with Chinese currency will cease so that service of these debts may be duly effected. This measure is a temporary arrangement in view of present abnormal conditions.

WASHINGTON, January 15, 1939.

³⁹ Adm. Harry E. Yarnell, U. S. Asiatic Fleet.

893.51/6779

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] January 16, 1939.

Participants: Dr. Chang-Lok Chen,⁴⁰
 Mr. Tswen-ling Tsui, of the Chinese Embassy,⁴¹
 Mr. Hamilton,
 Mr. Adams.⁴²

Dr. Chen referred to the text, which had been left at the Department, of a statement to be issued by the President of the Executive Yuan on January 16, 1939,⁴³ in regard to the servicing of obligations secured on the revenues of the Chinese Government pledged for debt service. He said that he and Mr. Tsui had been instructed to place informally before the Department of State three points in regard to the statement:

1. That the Chinese Government regretted that it could not sooner make known to the American authorities the decision of the Chinese Government as contained in the statement under reference; that the decision had been reached only on Saturday.

2. That a formal written communication in regard to the matter would be sent to the American Government in due course either through the American Embassy in China or through the Chinese Embassy in Washington.

3. That the statement referred to is not applicable to short-term obligations such as the American cotton and wheat credits of 1931 and 1933; that the servicing of these obligations will be continued.

Mr. Tsui said, in reply to a question, that he did not know whether the statement under reference would apply to the Boxer Indemnity payments.

Mr. Hamilton thanked Dr. Chen and Mr. Tsui for coming over to the Department, particularly during such bad weather.

M[AXWELL] M. H[AMILTON]

N. B. On January 17 Mr. Tsui telephoned to Mr. Adams and said that, according to a telegraphic instruction just received, the Chinese Ministry for Foreign Affairs had communicated Dr. Kung's statement to the American Embassy, Chungking.

⁴⁰ Counselor of the Chinese Embassy.

⁴¹ First Secretary of the Chinese Embassy.

⁴² Walter A. Adams, of the Division of Far Eastern Affairs.

⁴³ *Supra.*

893.51/6772 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 16, 1939—1 p. m.

[Received January 17—4 a. m.]

30. Following is Foreign Office translation of note dated January 15:

"I have the honor to transmit herewith the text of an announcement issued by the Chinese Government on January 15th concerning the service of Chinese Government debts.

The Chinese Government deeply regrets that the action now taken has been found necessary, but believes that those friendly foreign Governments concerned, who have endorsed the justice of China's cause, which is so clearly identified with their own interests, will appreciate that it has been caused by events for which China is not responsible.

The Chinese Government greatly appreciates the sympathetic interest shown by the American Government during the present difficult period, and hopes that it will continue its efforts to rectify the situation referred to in the announcement on a basis consistent with existing treaties and agreements and the mutual interests of China and friendly foreign nations.

I avail myself et cetera."

Following is the English text of the announcement:

[Here follows text of statement transmitted by the Chinese Embassy to the Department of State, January 15, printed on page 804.]

It has been ascertained that the note was sent to the diplomatic missions of eight countries. Informant was unable to indicate the basis of selection of the eight countries but assented when I suggested that perhaps they were countries signatory to the International Protocol of 1901⁴⁴ which bears on the administration of the Maritime Customs.

Repeated to Peiping, Shanghai. Peiping please send by air mail to Tokyo.

PECK

893.51/6773 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 17, 1939—10 a. m.

[Received January 17—7 a. m.]

34. American Embassy's No. 30, January 16, 1 p. m., suspension of debt service. Following is Central News release, Chungking, January 15:

"Commenting on the statement issued today concerning debt service a spokesman of the Ministry of Finance stated that on several occa-

⁴⁴ Signed at Peking, September 7, 1901, *Foreign Relations*, 1901, Appendix (Affairs in China), p. 312.

sions in the past, in order to safeguard the interests of holders of its obligations, the Government has provided the amounts needed to make up shortages of pledged revenues which have resulted from civil wars and economic depression. When the Japanese detained the revenues collected in the areas under their military occupation, a shortage was thereby caused. Despite prolonged efforts to induce them to permit the application of such revenues to the service of all the obligations outstanding before the hostilities to which the revenues were pledged, no funds were forthcoming, and the Government, in keeping with its general policy of doing everything possible to care for the interests of the bondholders, has advanced each month on the application of the Inspector General of Customs the amounts required to fill the gap.

Although the Japanese said they might allow remittances in respect of foreign currency obligations, they refused any remittances in respect of the equally valued Chinese currency debt outstanding before the hostilities.

Long experience in connection with customs in North China and elsewhere as well as in other matters indicates that [no?] reliance can be placed upon Japanese assurances. Moreover, the Japanese demanded that even the remittances they might allow, which would have covered only about forty per cent of the share of the occupied areas, should be dependent upon conditions which China could not accept.

These conditions included (1) recognition in effect of Japanese interference with customs integrity and alteration of the customs regime contrary to treaties and agreements; (2) deposit of collections in Japanese banks where obviously they might be used against China; (3) agreement to turn over to Japan the amount of the accumulated Japanese portion of the Boxer Indemnity, which has been accrued each month in sterling in a foreign bank as a temporary measure during the hostilities, and to pay future installments regularly each month.

The Ministry of Finance recently received from the Inspector General of Customs a communication requesting a further large advance to make up the January shortage. After most careful consideration the Government felt that it had no other recourse but to decline the request, for the reasons indicated in the official statement."

Mr. C. Rogers ⁴⁵ is here conferring with officials of the Ministry of Finance.

PECK

693.002/808 : Telegram

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

WASHINGTON, January 19, 1939—8 p. m.

16. Chefoo's 3, January 14, 10 a. m., which Peiping has been instructed to repeat to you, in regard to Chefoo Harbor Office. Please discuss with your interested colleagues the questions raised by the telegram under reference.

⁴⁵ Cyril Rogers, of the Bank of England, Adviser to the Chinese Ministry of Finance.

If and when your interested colleagues are prepared to take separate but similar action the Department desires that you make representations in writing to the Japanese Foreign Office against the proposed action of the Chefoo Harbor Office on the ground that such action by an agency which is effectively under Japanese control constitutes an unwarranted interference with the functions of the Chinese Maritime Customs in the maintenance of which the United States has an interest.

Repeated to Chungking, Chefoo, and Tsingtao.

HULL

693.002/807 : Telegram

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

WASHINGTON, January 19, 1939—9 p. m.

17. Your 22, January 13, 2 p. m., Chinese Maritime Customs.

1. The Department approves the manner of approach proposed by you and suggests that you inform the Japanese Foreign Office that the reply of the Japanese Government is not responsive to your representations of November 24 in that the basis upon which the Japanese Government declined to accept your representations does not give consideration to the issues involved, that is, the preservation of the integrity of the customs and respect for American and other foreign interests therein.

2. Although the official commitments of the Chinese Government to certain other governments in regard to the Chinese Maritime Customs do to some extent condition and limit the action of the former in the administration of the Maritime Customs, the Department feels that, in the light of this Government's concept of the Chinese Maritime Customs, use by this Government of the phrase "international status" as descriptive of that customs service should for technical and for tactical reasons be avoided. The Department suggests that the phrase "international interest in" or "American interest in" might be employed in the approach which you have in mind.

HULL

893.51/6788a : Telegram

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

WASHINGTON, January 25, 1939—7 p. m.

21. 1. The Department raises for your consideration the question whether the present, following the Chinese Government's announcement of the suspension of payments on its foreign indebtedness, would

perhaps be an appropriate and opportune time to make an approach to the Japanese Government in regard to the Japanese Government's responsibility in connection with that indebtedness, along the following general lines:

(a) The Chinese Government is, as the Japanese Government is aware, indebted to various foreign governments and nationals, including the United States Government and American nationals, and revenues of various revenue-collecting agencies of the Chinese Government, including the Maritime Customs, the Salt Administration, and the Consolidated Tax Office, are pledged for the service of such indebtedness.

(b) Prior to the present Japanese military activities in China and until very recently the payments due upon the indebtedness in question were being made. Now, however, following the occupation by Japanese military forces of large areas of China, payments on that indebtedness have been suspended.

(c) The Japanese Government cannot but acknowledge that its military forces have deprived the Chinese Government of and have taken over control—either directly or through régimes brought into being and maintained with Japanese military support—of territory and economic resources which formerly contributed to the servicing of the indebtedness referred to. In this connection, reference is made to the repeated assurances given by the Japanese Government that American rights and interests in China would be respected.

(d) The Government of the United States considers that the Government of Japan has an inescapable responsibility for the consequences of the action of Japanese armed forces and this Government looks to the Government of Japan to arrange for the continuance of the servicing, in the foreign currency or currencies stipulated in the contracts of indebtedness, of that proportion of the indebtedness of the Government of China to the Government and citizens of the United States which the pledged revenues in the area now occupied by the Japanese forces would, under normal conditions, bear to the pledged revenues of the whole of China.

2. In considering the question of the advisability of making the above-suggested approach to Japan, there should be borne in mind the possibility that any actual effort by Japan to provide the foreign exchange necessary for the continued servicing of the foreign indebtedness secured by the revenues in question might lead to, or be used by Japan as a pretext for, the imposition of effective exchange and import and export control in the occupied portions of China.

3. The Department suggests that you may desire to discuss informally with your British and French colleagues the questions raised herein.

Repeated to Chungking and Peiping.

HULL

893.51/6789: Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, January 27, 1939—9 a. m.

[Received 11 a. m.]

54. Embassy's 30, January 16, 3 [1] p. m. On January 26 the British Diplomatic Mission in Chungking handed the Embassy the text of a note dated January 25 addressed to the Chinese Minister for Foreign Affairs⁴⁶ in regard to the service of foreign loans which reads as follows:

"British Diplomatic Mission, Chungking, January 25th, 1939.

Your Excellency: With reference to Your Excellency's note of the 15th January, addressed to H. M. Ambassador to China, and enclosing a memorandum on the subject of the service of foreign loans, I have the honor, on instructions from Sir Archibald Clark-Kerr, to inform Your Excellency that he notes the hope expressed therein that remittances may be forthcoming from the areas under Japanese occupation.

In the opinion, however, of His Majesty's Government in the United Kingdom the best machinery for assuring the uninterrupted service of the foreign loans secured on the Chinese customs is that provided for in the Anglo-Japanese customs agreement.⁴⁷

His Majesty's Government would therefore urge that serious consideration be given by the Chinese Government to the question of authorizing the Inspector General of Customs to dispose of all customs revenue and to administer the service in the way which he judges best calculated to serve the interests of the Chinese Government and of all others concerned.

I avail myself, et cetera.

(Signed) J. D. Greenway.⁴⁸

Repeated to Peiping, Shanghai; Peiping please send by air mail to Tokyo.

PECK

493.11/2226: Telegram

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

SHANGHAI, January 30, 1939—5 p. m.

[Received January 30—1 p. m.]

82. The Consulate General has received letter from C. R. Bennett, Joint Treasurer of China Foundation for Promotion of Education and Culture, pointing out that suspension of payments by the Chinese Government of Boxer indemnities will have extremely serious effect on activities of the Foundation. Letter states that all of Foundation's educational work in China and support of research professors abroad

⁴⁶ Wang Chung-hui.

⁴⁷ Dated May 2, 1938; see telegram No. 289, May 2, 1938, midnight, *Foreign Relations*, 1938, vol. III, p. 692.

⁴⁸ First Secretary of the British Embassy in China.

is from indemnity remissions and that amount appropriated for these activities for current fiscal year is \$1,800,000 Chinese currency. To carry out specific projects assistance has been pledged to a limited extent in the future. Income from endowment fund would produce only about 25% of above amount.

Letter appeals for all possible efforts to be made in order that payment of the indemnity may be continued and states that endowment fund amounts to about \$10,000,000 Chinese currency which cannot be used for current expenses and grants without constitutional amendment. Under present conditions it is stated that it would be virtually impossible to convene sufficient trustees to enact such an amendment.

Concerning first remission which goes to support Tsinghua University and graduate students in America letter states that default would be equally serious as one of the conditions under which Tsinghua endowment fund was transferred to trusteeship of China Foundation was that endowment fund should be kept intact as a permanent endowment and that income from the endowment should not be available for current expenses until termination of indemnity period in 1941. Tsinghua annual budget is \$1,200,000 Chinese currency and \$60,000 United States currency.

Letter states that suspension of indemnity payments will leave Tsinghua University without any support and the China Foundation with about \$400,000 Chinese currency with commitments of about four times that amount if present program is to be carried out.

Letter concludes by stating that Foundation may admit that threat to its finances does not come through any act of American Government but on assumption that some action will be taken concerning the decision of the Chinese Government it is decided to inform the American authorities of the seriousness of situation which may soon confront Board of Trustees.

Copy of letter has been mailed to the Department, Chungking and Peiping.

GAUSS

893.51/6791 : Telegram

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

SHANGHAI, February 1, 1939—4 p. m.

[Received February 1—4 p. m.]

87. By strictly confidential letter dated January 29 and delivered yesterday the Inspector General of Customs points out that the deadlock between China and Japan in respect of customs revenues and servicing of loans and indemnities is largely a matter of "face" and suggests that in these circumstances the United States, Great Britain,

and France might possibly consider an offer to mediate with a view to securing Japan's compliance with and China's non-objection to the following *modus operandi*: Japanese to release forthwith Japan's share of the quotas already accrued and periodically accruing in the occupied areas including back quotas provided the powers concerned give an undertaking that they in turn will secure the remittance to the Yokohama Specie Bank of Japan's portion of the Boxer Indemnity now aggregating £525,000 and also the accumulated revenue now lying in the Hong Kong and Shanghai Bank aggregating 26,700,000 Chinese dollars, on the understanding that China will offer no objection to the Inspector General liquidating the plan thus proposed by the powers; that is, will not veto the release by him of the above balances.

I am informed by the secretary to the Inspector General [that] the same suggestion has been made to British and French Embassies.

Repeated to Chungking, Peiping, and Tokyo.

GAUSS

493.11/2228 : Telegram

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

SHANGHAI, February 2, 1939—6 p. m.

[Received 6:45 p. m.]

92. Following letter dated January 31st has been received by this office from financial secretary of Inspectorate General of Customs:

"With reference to the official statement published in the press on 15th January, notifying the decision of the Chinese Government to meet in future the service of all loans and indemnity obligations secured on the customs revenue in accordance to quotas; and that pending the remittance of the proportionate share of all foreign debt service charged to areas now under Japanese occupation to the Inspector General of Customs, the proportionate shares chargeable to areas under Government control would be set aside in a special account in the Central Bank of China, I am directed by the Inspector General to inform you that in execution of the above instructions the amount of \$115,631.93 equaling, at the rate of 100 dollars, United States dollars 29½, the sum of United States dollars 34,111.42, being the proportionate share chargeable to areas under Government control of the sum of United States dollars 159,997.26, representing the January 1939 installment of the American portion of the Boxer indemnity due today, is being placed to the credit of the special account opened with the Central Bank of China for the custody of such funds."

GAUSS

893.51/6791 : Telegram

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

WASHINGTON, February 4, 1939—3 p. m.

44. Your 87, February 1, 4 p. m., Chinese Maritime Customs. You may inform the Inspector General of Customs in reply to his confidential letter of January 29 that the American Government would not wish to urge upon the Chinese Government or the Japanese Government any particular plan toward attaining the objectives in which we are interested. If and as losses are occasioned to American interests in China by the military and other activities of the Chinese or Japanese Government this Government must look for indemnification to the Government responsible for such losses.

Repeated to Chungking and Peiping.

Please repeat to Tokyo.

HULL

893.51/6798 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, February 6, 1939—2 p. m.

[Received February 8—8 a. m.]

77. During informal visit to Kung, Minister of Finance, February 5, 5 p. m., he told how the British kept pressing him to permit implementation of the agreement in regard to the Maritime Customs that as he asserted Hall-Patch⁴⁹ had concluded for the apparent purpose of giving some protection to British holders of Chinese obligations. On February 4, Scott,⁵⁰ Acting Financial Adviser to the British Embassy in the absence of Hall-Patch, called on Kung and again urged implementation and Kung returned positive refusal. Kung said that in view of the sympathetic and helpful attitude of the American Government he wanted to keep us informed of these and proceeded to explain some of the reasons he gave for his refusal. The main objection of course was one of principle. The British Government contend that the Inspector General of Customs is subject to the authority of the Chinese Government and therefore they are not consistent in suggesting that the Chinese Government would not be implicated if it were tacitly to permit their implementation of the agreement. He asserted that early in the hostilities the Chinese Government suggested that the interested powers take over custody of the customs. The Japanese objected for the obvious reason that they wanted to control the customs in order to obtain funds to finance their military

⁴⁹ E. L. Hall-Patch, Financial Adviser to British Embassy in China.

⁵⁰ Robert Heatlie Scott.

operations and to have a means of controlling China's foreign trade. As a Chinese official it would be actually treasonable for him to lend himself to any arrangement whereby government revenue could be used to finance war against China. The Japanese have never shown any good faith in these matters. For example, they promised to remit to the Chinese Government proportionate loan quotas collected by the Chinese customs in Dairen but have never done so and he did not believe that revenues collected by the customs in areas successively occupied by the Japanese forces have been immobilized but thinks these funds which should total 150 million dollars are being used or will be used to further the aims of Japanese aggression. He contrasted this with the action of the Chinese Government in advancing 175 million dollars to pay service charges on customs secured obligations even though the hypothecated revenues were being retained by the Japanese.

Kung said that the agreement provides that only obligations expressed in foreign currencies shall come within the scope of the agreement and that this is not a rational basis of discrimination since foreign currency obligations are held by persons of Chinese as well as many foreign nationalities whereas Chinese currency obligations including the internal debt service that do not share in the benefits of the agreement are held by many persons of foreign nationality as well as Chinese. The Chinese Government could not make this discrimination between equally binding obligations particularly on this irrational basis.

The British in official notes on the increase of Japanese personnel in the customs when no additional British subjects were being admitted referred to the duty of the Chinese Government to maintain a certain ratio between nationalities but as just described they ignore other duties even more binding on the Government. Kung said he was gratified that the American Government had informed the Japanese Government of American general interest in the integrity of the customs but he suggested that through the American share in the Boxer Indemnity the United States was in position to assert a particular legal right to the functioning of the customs. (It occurs to me he may have had in mind the subject matter of Shanghai's 92 of February 2, 6 p. m., stating that indemnity payments will henceforth be placed in a special account pending receipt of quotas from Japanese occupied areas.)

Throughout this conversation I avoided expressing any opinion on the subjects discussed by Kung. While the tone of the interview between Kung and Scott was on the whole amicable yet Kung was very critical of Great Britain and said it was time that country actually did something on behalf of China and of its own interests now threatened by Japanese policies.

I may add that Dr. Young,⁵¹ American Adviser to the Ministry of Finance, recently remarked to a member of my staff that, as regards the granting of foreign credits to China, Russia has hitherto supplied the largest sums and further grants are being received from that country despite its straitened financial position. He also observed that Germany had extended more credits to China since the commencement of hostilities than Great Britain and that the German credits are still being utilized by virtue of their revolving character.

Repeated to Shanghai and Peiping. Latter send code text by mail to Tokyo.

PECK

893.51/6797 : Telegram

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

TOKYO, February 8, 1939—3 p. m.
[Received February 8—11:20 a. m.]

72. Department's 21, January 25, 7 p. m.

1. My British colleague concurs with me that it would not at present be desirable to make the suggested approach to the Japanese Government with regard to the Japanese Government's responsibility in connection with the Chinese Government's suspension of payments on its foreign indebtedness.

2. It is Craigie's belief that any future British loans to the Chinese Government for the purpose of currency stabilization will be made conditional on a resumption of Chinese payments on foreign indebtedness and he is of the opinion that such payments can be effected only through implementation of the provisional agreement concerning the maritime customs.

3. The opinion expressed in paragraph 1 above was based, so far as I am concerned, largely on the consideration presented by the Department in paragraph 2 of its telegram under reference. I had in mind, however, a further consideration. The servicing in foreign currencies of the Chinese loan is an obligation of the Chinese Government and to propose as a principle that the Japanese Government, by reason of military occupation of Chinese territory, has assumed a portion of the obligation of the Chinese Government might well lead to Japanese insistence on our recognition of Japanese claims to corresponding rights of the Chinese Government in respect of the revenues pledged for the service of these loans, and thus to a discussion the end of which it would be difficult to foresee.

GREW

⁵¹ Arthur N. Young.

893.51/6819

*Memorandum of Conversation, by Mr. Walter Adams of the Division
of Far Eastern Affairs*

WASHINGTON, February 10, 1939.

Participants: Count de Saint-Quentin, the French Ambassador,
Mr. Hamilton
Mr. Adams

The French Ambassador called at his request. He outlined the French position toward the British-Japanese arrangement in regard to the Chinese Maritime Customs. He said that when the arrangement was being negotiated the British authorities had suggested that, as the American Government was not making an approach to the Japanese authorities in regard thereto, it would perhaps be preferable if the French also refrained from making an approach. He said that the French had therefore not made an approach to the Japanese at that time.

The French Ambassador said that, in connection with present British efforts to obtain implementation of the arrangement, the British had approached the French with the suggestion that the French ask the Chinese Government to assent to implementation of the arrangement. The French Ambassador said that the British had already made representations to the Chinese Government to that effect. He said that inasmuch as the French Government had taken no diplomatic action in support of the British-Japanese customs arrangements, the French Government had not considered it appropriate that it should approach the Chinese Government on this subject but that the French Government had, in the light of the Chinese Government's recent announcement of suspension of debt service, expressed to the Chinese Government concern at this action of the Chinese Government. The Ambassador said that in this way the French had indirectly supported the British action. The Ambassador wondered whether we had considered the question of giving similar indirect support to the British by making representations to the Chinese Government.

In reply Mr. Hamilton indicated that, while the matter had not been discussed with the higher authorities, the feeling in FE⁵² was that, in view of all the attendant circumstances, an approach to the Chinese Government was not called for; that the action of the Chinese Government in suspending the servicing of its foreign obligations appeared to be not unreasonable; and that a reservation was not necessary in order to protect the American interests involved. With regard to the British-Japanese customs arrangement Mr. Hamilton said that the American authorities had consistently declined to urge upon the

⁵² The Division of Far Eastern Affairs.

Chinese or Japanese Governments any particular plan for the servicing of obligations in which we were interested but that we reserved the right to object to any plan that might in our opinion prejudice our interests. He added that the American authorities took the position that they would expect any agency inflicting damage upon American interests to be responsible for the consequences of its acts.

The French Ambassador inquired whether we perceived objection to the British-Japanese customs arrangement. Mr. Adams and Mr. Hamilton pointed out that the chief difficulty and problem involved in that arrangement seemed to us to be the question of foreign exchange, namely, would the Japanese-controlled areas furnish their share of the foreign exchange or would the Chinese Government be expected to furnish all foreign exchange.

The French Ambassador, just before his departure, asked whether the State Department had any information in regard to the reported occupation of the Island of Hainan by Japanese forces. Mr. Hamilton replied that a report had been received from Tokyo⁵³ that a Japanese announcement had been published reporting the occupation of the island by Japanese forces but that we had no details in regard to the matter.

493.11/2234

*The Chief of the Division of Far Eastern Affairs (Hamilton) to
Mr. Roger S. Greene*⁵⁴

WASHINGTON, February 15, 1939.

MY DEAR MR. GREENE: Reference is made to your letter of January 31, 1939, which Mr. Hornbeck acknowledged on February 2,⁵⁵ in regard to certain matters concerning the administration of the American Boxer Indemnity funds by the China Foundation for the Promotion of Education and Culture.

With regard to your inquiry whether there is anything—"some representation" to the American Government—that the China Foundation could do about the action of the Chinese Government in announcing cessation of payments upon obligations secured on the Chinese customs revenues, the view expressed by you to the effect that it would not appear to be worth while for the Foundation to take any initiative at this time along the lines suggested, seems to us to be sound. The general question of payments upon obligations secured on the Chinese customs revenues is one, as you know, which has received and is receiving our close attention.

⁵³ See telegram No. 83, February 10, 5 p. m., p. 103.

⁵⁴ Of the Board of Trustees, China Foundation for the Promotion of Education and Culture.

⁵⁵ Neither printed.

With regard to the question you raise in connection with the Tsinghua University Endowment, our attitude is, as it has been in the past in connection with the China Foundation, that in matters relating to the functioning of the Board of Trustees of the Foundation it is not the practice or the desire of the Department of State to intervene except in cases of absolute need therefor. The Department is primarily concerned that the remitted Boxer Indemnity payments be used "for the purpose of further developing the educational and other cultural activities of China". The Department has also indicated on occasion that it is not disposed to ignore action which in its opinion would be in violation of the constitution of the China Foundation. The questions which you raise in regard to the Tsinghua University Endowment do not appear to us to involve either of the foregoing considerations.

I note that you expect to attend the meeting of the Foundation Trustees in Hong Kong in April. If, before your expected departure, there are other questions that occur to you in regard to which you desire to consult the Department and upon which we might appropriately comment or offer suggestions, we shall be pleased to hear from you.

Sincerely yours,

MAXWELL M. HAMILTON

693.002/823 : Telegram

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

TOKYO, February 17, 1939—8 p. m.
[Received February 18—7:30 a. m.]

96. Department's 17, January 19, 9 p. m., Canton Maritime Customs. The procedure envisaged in Department's paragraph numbered 1 was followed in an interview with the Minister for Foreign Affairs today. The Minister replied that he took note of my statement but made no further comment.⁵⁶

GREW

693.002/840 : Telegram

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

SHANGHAI, March 16, 1939—5 p. m.
[Received March 16—12:11 p. m.]

214. 1. Inspector General of Customs has informed me that he has received instructions from the Minister of Finance to the effect

⁵⁶ See Ambassador Grew's memorandum of February 17, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 747.

that the Executive Yuan understands that the Japanese intend to reopen the Yangtze River to navigation but intend to control steamer routes and aids to navigation to supervise outdoor customs activities, to increase authority of Japanese pilots, and to negotiate with Inspector General for recruitment of additional Japanese staff to meet the new conditions, wherefore the Executive Yuan had directed the Minister of Finance to instruct the Inspector General not to come to any understanding respecting additional Japanese employees and that the customs should employ means to destroy the Yangtze aids to navigation and block the fairway. At the same time the Foreign Office is instructed to invite the attention of the American and British Governments to the question, pointing out that if the customs is placed under the control of the Japanese employees the trade with Europe and America will be adversely affected, loans secured on the customs will be less adequately protected, and should the war be prolonged Japan would probably use the customs revenue for her own advantage.

2. Inspector General proposes to reply that he has reached no understanding with Japanese in regard to reopening of Yangtze customshouses and recruitment of staff therefor but when these ports are to be reopened he expects to receive demands for additional Japanese staff and he has received information that Japanese will demand appointment of a number of Japanese commissioners and deputies for work in customshouses in occupied areas and he will make every endeavor to reduce these demands when presented but if he is compelled by the imperious necessities of the hostilities to appoint a few more senior Japanese he will endeavor to do so on a contract basis and not on a permanent basis.

3. Inspector General informs me that the best terms he is likely to be able to secure will be that the customs controlling authority in the majority of the ports will remain in the hands of non-Japanese commissioners, that no individual port will be staffed entirely by Japanese, and if he is compelled to appoint a few more senior Japanese to the service he will endeavor to do so on the contract basis.

4. Inspector General tells me orally that he cannot continue to maintain the integrity of the Customs Administration if he receives mandatory instructions from the Chinese Government prohibiting the further employment of Japanese. Under the circumstances he asks me to request that our Embassy at Chungking make representations in the matter to the Ministry of Finance. He states that the British Ambassador has agreed to instruct his representative at Chungking to that end.

5. I consider that so far the Inspector General has been able to do exceptionally well in resisting Japanese pressure and while he has necessarily had to employ number of Japanese junior customs officers for outdoor customs work and to assign senior Japanese members of

the customs to more important work, no port is definitely under Japanese control and the integrity of the service is being maintained. If he is to receive mandatory instructions from the Executive Yuan such as those outlined in paragraph 1, it is of course impossible for him to continue to function. If he resigns it is not likely that he could be replaced by an appointee of the Chinese Government and the customs would definitely fall into Japanese hands. He must be allowed a reasonable latitude and discretion if he is to continue to function, and I am therefore personally of the opinion that representations at Chungking should be authorized.

Repeated to Chungking and Peiping.

GAUSS

893.156CH/260 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 17, 1939—11 a. m.

[Received 2 p. m.]

185. Department's 286, November 5, noon,⁵⁸ regarding Chefoo Harbor Improvement Commission. Note was sent November 9. Note from the Foreign Office, dated March 10, received March 13, first acknowledges receipt of the Embassy's communications of November 2 and 9 and then quotes the Ministry of Finance as follows:

(Embassy's translation) "A further communication on this subject has been received from the Inspector General of Customs transmitting a petition from the Commissioner of Customs at Chefoo reporting the circumstances of the taking over.

At the very beginning, that is on September 10, the bogus Chefoo Municipal Office sent a letter demanding the dissolution of the Chefoo Harbor Improvement Commission and the handing over completely to the custody of that office of its functions and properties. The Commission thereupon convened an emergency meeting. Mr. H. Nagaoka, Japanese Consul at Chefoo, attended the meeting on behalf of the consular body in his capacity as Senior Consul, and proposed the immediate dissolution of the Commission and the handing over all activities and properties to the bogus Municipal Office. He also stated that the matter had received the support of the Japanese Navy. The Commandant was thus compelled to take over the property and on the same day the transfer was approved. All deposits in the Bank of Communications were on that day transferred to the bogus Chefoo Municipal Office against a receipt which was placed on file. The money was delivered the next day by the bogus Municipal Office to the Japanese authorities. All other properties are under investigation and an inventory it [*is?*] being compiled.

As regards the functions of the Commission, they were originally transferred by the bogus Municipal Office through the Japanese naval

⁵⁸ *Foreign Relations*, 1938, vol. III, p. 748.

authorities to the 'Federated Shipping Bureau' for handling. They were then taken over by the 'Chefoo Harbor Office' which was established on November 10 under the guidance of the Japanese naval authorities.

The harbor taxes formerly levied by the Customs on behalf of the Commission have been collected since the dissolution of the Commission, first, by the 'Federated Shipping Bureau', and later by the 'Chefoo Harbor Office' through employment of the original persons of the Commission and at the original rates."

The Foreign Office communication is as follows :

"The Ministry in inditing this third person note has the honor to state that the Chinese Government decidedly can not recognize this illegal change brought about in the organization of the Chefoo Harbor Improvement Commission by Japan and the bogus organ. The American Embassy in China is requested to pay serious attention to the matter and to refuse cooperation. A reply is also requested."

Unless otherwise instructed I will acknowledge saying the matter has been referred to the Department.

Repeated to Peiping, latter repeat by mail to Tokyo.

PECK

693.002/844 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 20, 1939—11 a. m.

[Received March 20—8:50 a. m.]

193. Shanghai's 214, March 16, 5 p. m. On March 19, 2 p. m., at luncheon given by me the French Ambassador informed me he had received from the Counselor of the French Embassy in Shanghai a report of Kung's instruction to Maze⁵⁹ accompanied by recommendations that representations be made to Kung. The message was of the same tenor as Shanghai's telegram in reference. The Ambassador said he was dining with Kung the same evening and that he felt strongly inclined to follow the Counselor's advice. He inquired concerning my opinion and intentions. I said that the Department had hitherto merely expressed to the Japanese and Chinese Governments its interest in the maintenance of the integrity of the Chinese customs and had refrained from giving specific advice to the Chinese Government and that consequently I should await the Department's instructions in the present instance. The Ambassador then made similar inquiries of the Secretary in charge of the British Diplomatic Mission and was told that the British Ambassador in Shanghai was awaiting instructions from London. The French Ambassador then said that

⁵⁹ Sir Frederick Maze, British Inspector General of Chinese Customs.

he would await instructions from Paris before making any representations to Kung.

Repeated to Peiping, Shanghai.

PECK

893.51 Salt Funds/225 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, March 22, 1939—3 p. m.

[Received March 22—8:30 a. m.]

198. O. C. Lockhart,⁶⁰ Associate Director General of the Chinese Government Salt Administration, recently arrived in Chungking in compliance with instructions. He and I have tacitly avoided discussion of his affairs but he has informed Drumright⁶¹ orally and confidentially that he is considering the possibility of tendering his resignation unless steps are taken by the Chinese authorities to restore the principle of joint authority and responsibility of the foreign and Chinese officers of the salt service, the maintenance of which principle has been repeatedly asserted to be the policy of the Chinese Government. (See Embassy's 175, March 29, 10 a. m., 1938⁶² for what appear to be most recent assurances on this point.) Dr. Lockhart declared there has been an increasing tendency on the part of the Chinese authorities to disregard the principle of joint responsibility, especially in the case of his Chinese colleague, Mr. T. C. Chu, with whom he is not at present on good terms. Dr. Lockhart stated that the situation has become so unsatisfactory from his standpoint that he is considering the possibility of seeking a "showdown" before the Minister of Finance and that if satisfactory assurances are not forthcoming from the Minister in respect to the principle of joint responsibility he would appear to have no alternative but to resign. In this connection he deprecated Chinese pretensions that the principle of joint responsibility is being faithfully observed, whereas in reality it is being trampled upon.

Dr. Lockhart did not ask for American interposition on his behalf and the foregoing is therefore reported solely for the information of the Department. (See Embassy's despatch No. 107, December 19⁶³ in regard to the British proposal for the negotiation with the Japanese of a *modus vivendi* relating to the Salt Administration.)

Repeated to Peiping, Shanghai. Peiping mail to Tokyo.

PECK

⁶⁰ An American citizen.

⁶¹ Everett F. Drumright, Third Secretary of Embassy in China.

⁶² *Foreign Relations*, 1938, vol. III, p. 674.

⁶³ *Ibid.*, p. 750.

693.002/844 : Telegram

The Acting Secretary of State to the Chargé in China (Peck)

WASHINGTON, March 22, 1939—4 p. m.

52. Shanghai's 214, March 16, 5 p. m., to the Department and your 193, March 20, 11 a. m., to the Department in regard to the request of the Inspector General of Customs that representations be made by the American Embassy to the Chinese Ministry of Finance urging that the Chinese Government refrain from issuing mandatory instructions to the Inspector General prohibiting further employment of Japanese.

Department approves reply made by you to French Ambassador and desires that you refrain from making any approach to the Chinese Government in the matter. If, however, an appropriate official of the Chinese Government should bring up the subject, Department suggests that, as upon your own initiative, you informally indicate the interest of the American Government in the maintenance of the administrative integrity of the Chinese Maritime Customs Service and mention the points made by Gauss in paragraph 5 of his telegram under reference, stating that you are confident that the Chinese Government is giving appropriate consideration to those points as well as to all other important factors involved.

Repeated to Peiping and Shanghai.

WELLES

893.51/6850

Memorandum of Conversation, by the Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] March 23, 1939.

Mr. Tsui of the Chinese Embassy called at his request. He left with me the attached memorandum of March 23⁶⁴ in regard to a decision reached by the Chinese Government relating to the future service of salt-secured debts.

Mr. Tsui said that the Chinese Minister of Finance made the request that the Department forward copies of the memorandum to the Foreign Bondholders Protective Council and to J. P. Morgan and Company⁶⁵ and that the Department use its influence toward obtaining acceptance of the proposal outlined in the memorandum.

I said that we would study the contents of the memorandum. I inquired also whether it was not a fact that in regard to negotiations of several years ago relating to the Chinese Government's salt-secured

⁶⁴ *Infra.*⁶⁵ Copies were forwarded as requested (893.51/6856).

debts to American creditors, the negotiations had been conducted directly by the Chinese Government with the American creditors or their representatives; in other words, the State Department had not acted as an intermediary. Mr. Tsui replied that it was his recollection that the negotiations had been carried on directly between the Chinese Government and the interested Americans or their representatives.

Mr. Tsui said that the salt-secured debts in so far as American nationals were concerned were the Hukuang loan, the Continental and Commercial Bank loan, and the Pacific Development loan.

M[AXWELL] M. H[AMILTON]

893.51/6850

The Chinese Embassy to the Department of State

MEMORANDUM

The Chinese Government has been much concerned to continue the debt service despite the unprecedented difficulties and only with the greatest reluctance announced on January 15, 1939, that it could no longer provide service of full customs obligations. In view of Japanese interference with the salt revenue, the Government now is obliged to apply similar measure in respect of salt secured debts. The salt administration has been provisionally instructed to act accordingly and also to set aside in special account in the Central Bank of China appropriate share of service of salt loans. This measure will be shortly announced and meanwhile is confidential.

The Chinese Government does not wish the situation resulting from these measures to continue without an effort to arrive at a reasonable arrangement to maintain debt service so far as practicable having regard to the abnormal conditions of obtaining vital necessities for prosecuting the war and to the pressing demand for financial and economic stability. The Chinese Government is therefore initiating negotiations with the representatives of the creditors in respect of the customs and salt secured loans.

The present debt situation is due solely to the war. Prior to July, 1937, China had been making great financial and economic progress. Adequate revenues were being developed, financial administration improved, currency stabilized, old debts in arrears mostly settled, and budget equilibrium within reach. Railways, roads and air communications were being improved and extended and industry developed. Japanese aggression destroyed over night this promise of a new era of progress.

Notwithstanding the disparity of resources and equipment, China has waged the one sided war much longer than expected, but until recently, she has been left to fight almost unaided other than by valu-

able aid from American silver purchases. She has no heavy industries and her export trade has been crippled; hence the import of essential supplies is largely against cash. Her economy is gravely disrupted by the Japanese and it is a matter for wonder that during recent months her financial organization has not been broken down.

Nevertheless, the Government has made all efforts to maintain currency and credit, and feel entitled to recognition of its attitude toward debt in foreign currency which was fully maintained for eighteen months of war. The Government has reluctantly concluded that there is no alternative but to seek cooperation of the bondholders. It therefore proposes for the next twelve months to pay in exile foreign currency in respect of customs and salt secured loans held by public one coupon on loans receiving full interest, and half annual interest on loans paid under settlements providing for less than full interest. Reduction in payments is to be regretted, but the Government would point out that the bondholders have received more than would be usually expected under the circumstances of the past twenty months of war. This would be a temporary arrangement and it is intended to resume full service at earliest possible moment. Similar proposals are being made to appropriate creditors' representatives in other countries.

The Chinese Government appeals for sympathetic and favorable consideration of this offer by the friendly governments and peoples. In order to avoid delay the Government is putting forward in the first instance the utmost it can do and would make it clear that this is not a basis for bargaining. Half of annual interest on these loans is about \$4,700,000.00 in American currency and is roughly equivalent to the unoccupied area's share which would be about \$5,100,000.00 in American currency based on the Chinese Government receipts of about 20% of customs collection and, according to quotas, 35% of salt for which the collection data is still unavailable. The Government however does not relate the proposal to the share of this area because it is unwilling to imply any possible derogation of sovereign rights in the occupied area.

WASHINGTON, March 23, 1939.

493.11/2256

The Chargé in China (Peck) to the Secretary of State

No. 163

CHUNGKING, March 23, 1939.

[Received April 7.]

SIR: I have the honor to refer to the Embassy's telegram from Chungking No. 30, of January 16, 1 p. m., transmitting the translation of a note dated January 15, 1939, from the Chinese Foreign Office

announcing the suspension as from that date of payments on foreign obligations secured on the Customs revenue. Reference is made, also, to despatch No. 1535, of January 25, 1939, from the Consul General at Shanghai ⁶⁶ in regard to the difficulty caused by this suspension to the China Foundation for the Promotion of Education and Culture, both in connection with commitments under the 1925 remission of the Boxer Indemnity ⁶⁷ and in connection with the Tsing Hua University and the graduate students in America, which are supported out of the proceeds of the 1908 remission of the Indemnity.⁶⁸

In the absence of instructions from the Department directing that any steps be taken to relieve the difficulties of these educational enterprises and in the absence of any request from the Chinese authorities directly responsible for their conduct, I have refrained even from making any inquiries into the subject (in this connection see despatch No. 1929, of February 17, 1939, from the Embassy at Peiping ⁶⁶), except on one occasion.

On March 15, at an afternoon reception given by the French Ambassador, Mr. Ku Yu-hsiu, Political Vice Minister of Education, informed me that Dr. Y. C. Mei, President of the Tsing Hua University, had for some days been in Chungking asking that the Ministry of Finance and the Ministry of Education provide financial support for the University in lieu of the Indemnity payments, now in suspense. Mr. Ku said that Dr. H. H. Kung, Minister of Finance, had consented in principle to the extending of some degree of support, but he felt that the Minister of Finance would be less likely to postpone action in the matter if the American Embassy were to show its interest in some way. Having in mind the solicitude felt by the Department in past years for the welfare of the educational work specified in the exchange of notes effecting the Indemnity remission of 1908 I consented to make an inquiry of Dr. Kung, provided a suitable opportunity should be present.

On March 17 Dr. Kung invited a small number of American citizens, including Mrs. Peck and me, to tea and in the course of a general conversation I inquired of the Minister how Tsing Hua University was progressing. He replied that the University was progressing satisfactorily. I observed that I supposed the institution would be taken care of and Dr. Kung replied that it would.

Respectfully yours,

WILLYS R. PECK

⁶⁶ Not printed.

⁶⁷ See *Foreign Relations*, 1925, vol. I, pp. 935 ff.

⁶⁸ See *ibid.*, 1908, pp. 64 ff.

693.002/850 : Telegram

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

SHANGHAI, March 31, 1939—2 p. m.

[Received 4:53 p. m.]

253. Reference my telegram No. 214, March 16, 5 p. m., regarding Chinese Customs.

1. Inspector General of Customs has now sent me translation of a further telegram from the Minister of Finance: (1) authorizing Customs to engage at their discretion when necessary foreigners on a broad international basis and (2) confirming previous instructions that additional Japanese are not to be appointed.

2. Inspector General states regarding point 1 above that it is incompatible with his position as a servant of the Government to neglect indefinitely to execute the categorical instructions, that enforcement of the instructions will necessarily involve a deadlock between the Inspector General and the Japanese authorities, and that should such deadlock ensue the disruption of the customs service and authority of the Inspectorate must be expected with disastrous results to China's political and financial interests and to international trade, shipping and finance.

3. As to point 2 above, Inspector General states he has drawn attention to the fact that before definite measures can be devised in this connection it seems that a reorientation of the whole question is desirable and refers to his letter of November 7th which was sent as enclosure 2 of my despatch No. 1809, November 9 last year. See also my despatch No. 1813, November 15 last.⁶⁹

Repeated to Chungking and Peiping.

GAUSS

493.11/2255

The Chinese Ambassador (Hu Shih) to the Secretary of State

WASHINGTON, April 3, 1939.

MY DEAR MR. SECRETARY: I beg to refer to a Statement issued by His Excellency Dr. H. H. Kung, President of the Executive Yuan, on January 16, 1939, and the Memorandum of this Embassy under date of March 23, 1939, about the desire of the Chinese Government to maintain the loan service as far as practicable under the existing conditions.

The Chinese Government particularly regrets that circumstances have forced it to apply the measure as announced on January 16, 1939, to the payment of the Indemnity of 1901 as well as to the Loans. I

⁶⁹ None printed, but see telegram No. 1465, December 7, 1938, 5 p. m., from the Consul General at Shanghai, *Foreign Relations*, 1938, vol. III, p. 749.

am instructed by my Government to request that the American Government agree to the temporary deferment of the Indemnity payments during the hostilities. I beg to assure you that this request is made with much reluctance as my Government fully realizes that the action of the American Government in taking the lead in remitting the Indemnity has produced far-reaching and lasting benefits to China.

The Belgian, British, French and Netherlands Governments are also being approached concerning the Indemnity payments.

I am [etc.]

HU SHIH

693.002/853 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 5, 1939—11 a. m.

[Received 1:38 p. m.]

239. Telegram 253, March 31, 2 p. m., from Shanghai to the Department regarding Chinese customs. The British Diplomatic Mission supplied me last night with a copy of a note sent by [*to?*] the Chinese Minister for Foreign Affairs on April 4 as follows:

"Your Excellency, I have the honor, on instructions from His Majesty's Ambassador in China, to inform Your Excellency that the Japanese continue to exercise pressure on the Inspector General of Customs for the appointment of additional Japanese to the senior posts in the Customs Service, as well as for further Japanese to be appointed to Kiungchow (Hainan). In the view of the Inspector General, the complete rejection of these demands (in accordance with the categorical instructions which he has received from Your Excellency) would result in independent Japanese action which would jeopardize the integrity of the service at an early date.

These instructions appear to place Sir Frederick Maze in an impossible position. The policy which he has so far followed, namely, resistance to the Japanese so long as may be practicable followed by concessions on a minor scale, constitutes in the existing circumstances the only method of preserving the integrity of the Customs Service regime permitting Sir Frederick Maze to retain his nominal control.

Your Excellency is aware that in view of His Majesty's Government in the United Kingdom the maintenance of that integrity as long as may be possible is in the interests of Great Britain and China alike; and I have accordingly been instructed to urge upon Your Excellency the acceptance of the views expressed by the Inspector General in his telegram No. 30 of March 16th, transmitted to you by His Majesty's Consul General at Chungking.

I avail myself, et cetera."

Referring to despatch 2022, February 28 from Shanghai to the Department⁷⁰ and especially to the telegram from the Ministry of

⁷⁰ Not printed.

Finance to the Inspector General copied therein which states *inter alia* that the American Ambassador has requested of the Ministry for Foreign Affairs that foreign employees of the customs shall be engaged on a broad international basis, a search of the files of the Embassy for a year past fails to show the American Ambassador has been instructed to make or has made any such request.

Repeated to Shanghai and Peiping. Latter please mail to Tokyo.

PECK

693.002/854 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, April 7, 1939—4 p. m.

[Received April 7—1:25 p. m.]

245. My 239, April 5, 11 a. m. Dr. Young⁷¹ has called personally to hand me the following text of the reply of April 6 of the Minister of Finance to the communication of April 4 from the British Diplomatic Mission concerning the employment of Japanese in the Maritime Customs.

“Dear Sir. Mr. Greenway:⁷² With reference to your communication of April 4th concerning pressure upon the Inspector General of Customs to employ additional Japanese in senior posts in the Customs Service, I would point out that the Customs has long been an expert international service of the Chinese Government, basic principles of which are selection because of tested fitness for the work in question, without discrimination as to nationality, and promotion and transfer according to seniority and merit. As to nationality of personnel, Sir Archibald Clark-Kerr has recently been in correspondence with the Chinese Government. I have always taken the position that such appointments are not to be made on the basis of pressure from a foreign government, and particularly at this time it could scarcely be expected that as Minister of Finance I could give approval to employment of Japanese on such a basis, therefore while realizing the difficult situation with which Sir Frederick Maze has to deal and wishing to allow him reasonable freedom of action, I desire him to sustain the customs regulations and to use all practical means with the support of the friendly foreign powers, which I am confident will be given, to resist the constant Japanese pressure for increasing the number of Japanese nationals in the service.

Yours faithfully, (signed) H. H. Kung, Minister of Finance.”

Repeated to Peiping and Shanghai.

PECK

⁷¹ Arthur N. Young, American Adviser to the Chinese Ministry of Finance.

⁷² John Dee Greenway, First Secretary of the British Embassy in China.

493.11/2260 : Telegram

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

WASHINGTON, April 20, 1939—7 p. m.

104. Peiping's despatch 1954, March 10,⁷³ Tsinghua University. The Department suggests that in your discretion you renew your representations of February 3, 1938.⁷³ You may wish to review the nature and extent of the American interest in the University as set forth in the Department's 28, January 27, 1938, 7 p. m., to Peiping⁷³ and to express the hope that there will be issued to the Japanese military authorities in Peiping such instructions as may be required to rectify the unsatisfactory situation described in Peiping's despatch under reference.

HULL

493.11/2255

The Secretary of State to the Chinese Ambassador (Hu Shih)

WASHINGTON, April 22, 1939.

MY DEAR MR. AMBASSADOR: I have received your communication of April 3, 1939, and have noted the statement to the effect that the Chinese Government particularly regrets that circumstances have forced it to defer temporarily during the period of hostilities in China the payment of the Indemnity of 1901.

I regret the existence of the conditions which, as you state, cause your Government with much reluctance to bring this matter to the attention of the American Government. The educational and cultural activities which the remissions of the American share of the Indemnity have supported in China have, I believe, proven beneficial to the Chinese people and have constituted an important factor for goodwill between the Chinese people and the American people. The cessation of that support would have a most unfortunate effect upon Tsinghua University and other projects and individuals dependent for support upon the remitted payments. I am therefore pleased to note that, in your conversation with Mr. Hamilton on April 5,⁷⁴ you were in position to state that, if educational and scientific institutions which are being supported by American remissions of indemnity should experience difficulties, the Chinese Government would endeavor to do what it could to meet their needs.

I am [etc.]

CORDELL HULL

⁷³ Not printed.⁷⁴ Memorandum of conversation not printed.

893.51/6876

*The Chinese Ambassador (Hu Shih) to the Secretary of State*⁷⁵

WASHINGTON, April 26, 1939.

MY DEAR MR. SECRETARY: Referring to a Statement issued by His Excellency Dr. H. H. Kung, Minister of Finance, on January 15, 1939, and the Memorandum of the Chinese Embassy under date of March 23, 1939, concerning the service of the loans secured by the customs and salt revenues, I beg to enclose herewith for your information and consideration copies of telegraphic messages from His Excellency Dr. H. H. Kung, dated Chungking, April 14, 1939, and April 20, 1939, respectively.

I am [etc.]

HU SHIH

[Enclosure 1]

TEXT OF A TELEGRAPHIC MESSAGE RECEIVED BY THE CHINESE EMBASSY
FROM HIS EXCELLENCY DR. H. H. KUNG, MINISTER OF FINANCE,
DATED CHUNGKING, APRIL 14, 1939

The Chinese Government will, as previously stated, meet the unpaid service as soon as conditions permit. However, the Japanese are detaining and interfering with the pledged customs and salt revenues in the occupied areas which action, together with their interference with the Chinese currency, is responsible for the suspension of loan payments and the temporary inability to pay more than fifty percent of the interest. The Chinese Government, therefore, hopes that the friendly foreign governments can prevail upon the Japanese to allow the utilization for debt service of the pledged revenues collected in the occupied areas.

The Chinese Government proposes the following temporary plan in respect of the unpaid service:

(1) The Chinese Government to issue non-interest-bearing Treasury Bills for the total amount of the unpaid service of the loan covered by the proposal. The Treasury Bills are to be considered as interim payment and not as creating an obligation additional to the coupons and drawn bonds unpaid.

(2) The Treasury Bills to be replaced by cash in proportion to the difference, if any, between the payment in foreign exchange to the bondholders and the share of the area not subject to Japanese interference.

(3) The Treasury Bills also to be replaced by cash derived from the occupied areas. It would be understood that the creditor governments in pressing the Japanese to allow the utilization for loan service of the revenues derived from the occupied areas would avoid any

⁷⁵This note from the Chinese Ambassador was acknowledged by the Under Secretary of State on May 15, stating that the matter was under consideration.

action—such as, acceptance of the puppet Treasury Bills or otherwise,—that might imply any question as to the maintenance of China's sovereign rights or recognition of the bogus regime. The Treasury Bills and cash, if any, would be held by the Inspector-General of Customs and Associate Director-General of Salt as the joint trustees and would be locked up in vault under their joint control.

(4) No payment of foreign exchange would be made directly or indirectly from the trust fund without the consent of the Chinese Government.

(5) The Treasury Bills and cash would be paid on the basis of the open market rate of exchange and would be adjusted from time to time.

The Chinese Government earnestly hopes that an early agreement can be reached on the basis of the proposal in the Memorandum of the Chinese Embassy under date of March 23, 1939, supplemented by the above plan.

[Enclosure 2]

TEXT OF A TELEGRAPHIC MESSAGE RECEIVED BY THE CHINESE EMBASSY FROM HIS EXCELLENCY DR. H. H. KUNG, MINISTER OF FINANCE, DATED CHUNGKING, APRIL 20, 1939

The proposal communicated in my telegram of April 14, 1939, enumerates various safeguards in connection with the suggested method of handling unpaid debt service. The Chinese Government attaches particular importance to the avoidance of any action that might imply any question as to China's sovereign rights in the occupied areas or the recognition of the bogus regime. In addition, the Chinese Government would desire the friendly governments to keep in mind the points hereinafter stated in connection with any representations to Japan to allow the release of the pledged revenues in the occupied areas:

(1) In the event that the payments from these revenues fall short of covering the proportionate service of all debts outstanding before the hostilities, any payments to be received are to be considered as on account and not as full payment, thus preserving the position as to internal loans.

(2) The Chinese Government is to receive as much as possible of the pledged revenues detained by the Japanese prior to January 15, 1939, when the debt measures were announced. It will be recalled that the Chinese Government has advanced 175 million dollars to the Customs for debt service.

(3) Payment in respect of the period subsequent to January 15, 1939, is to be turned over to the Trustees mentioned in the telegraphic message of April 14, 1939, and under the conditions specified therein.

(4) In case the Japanese raise the question of the Japanese portion of the Boxer Indemnity, it should be noted that the Chinese Government cannot pay it especially since the Japanese in effect have taken customs funds from which the Japanese portion is payable. It is, therefore, considered that they have paid themselves and, furthermore,

they are holding and using the revenues rightfully belonging to the creditors of other nationalities.

(5) Payments from the pledged revenues of the occupied areas in respect of the period since January 15, 1939, should be figured at the market, rather than the official, rate of exchange.

(6) It is hoped that any negotiations undertaken by the friendly governments with Japan will be on the basis of efforts to prevail upon the Japanese to allow the utilization of the pledged revenues detained rather than the implementation of the Customs Agreement.

893.51/6888

Memorandum of Conversation, by the Assistant Chief of the Division of Far Eastern Affairs (Mackay)

[WASHINGTON,] May 4, 1939.

Subject: Chinese Government Proposal in regard to the Service of Loans secured by Customs and Salt Revenues

Mr. Mackay telephoned Mr. White ⁷⁸ and referred to the conversation between Mr. White and Mr. Hamilton which took place on May 2 in regard to the subject stated above.

Mr. White referred to the receipt by him of a copy of the text of a message under date April 14, 1939, received by the Chinese Embassy in Washington from Dr. H. H. Kung in which was set forth a "temporary plan in respect of the unpaid service" of Chinese obligations (see enclosure to 893.51/6876). Mr. White asked for an intimation of the Department's views in regard to the plan under reference. Mr. Mackay replied to the effect that the proposal as set forth in Dr. Kung's message of April 14 is by no means clear; that the Department is giving consideration to the matter and that no decision has been reached. Mr. Mackay expressed his personal view that a proposal by the Chinese Government which modified existing agreements between the Chinese Government and American bondholders would be a matter for consideration and decision by the affected bondholders rather than by the Department. Mr. White concurred in the view expressed and said that he had under consideration a communication to be sent to the Chinese Embassy in Washington in which, in brief, he would point out that, as a large proportion of the Treasury Notes issued in connection with the so-called Chicago Bank Loan (\$3,571,000 out of the total issue of \$5,500,000) is believed to be held in China, it might be possible for the Chinese Government to effect service of such notes in Chinese currency, thus eliminating the question of foreign exchange, and by so doing enable the Chinese Government to service in full the remaining notes of the loan which are now held in the United States. Mr. White also said that as the Hukuang

⁷⁸ Francis White, President, Foreign Bondholders Protective Council.

Loan was issued only in part in the United States he did not contemplate taking any action in regard thereto, at least until such time as he had heard from the representatives of the bondholders of the portions of the loan issued in London and elsewhere. Mr. White added that his communication to the Chinese Embassy would of course be conciliatory and would indicate full recognition of the difficulties now being faced by the Chinese Government but that for obvious reasons he could not approve of any plan which would be less favorable to American bondholders than to bondholders of other nationalities.

In conclusion Mr. Mackay said that the Department would be pleased to receive any additional information or comment which the Foreign Bondholders Protective Council might wish to offer, and in turn Mr. White expressed the hope that the Department would pass on to him any information of importance which might be helpful to the Council in its consideration of the subject under discussion.

893.51 Con-Ob Continental/201

Memorandum of Conversation, by the Assistant Chief of the Division of Far Eastern Affairs (Mackay)

[WASHINGTON,] May 27, 1939.

Participants: Mr. Francis White, President, Foreign Bondholders Protective Council,
Mr. Hornbeck⁷⁷
Mr. Mackay

Subject: Proposals of the Chinese Government with respect to the service of its obligations secured on customs and salt revenues.

Mr. White called at the Department and was received by Mr. Mackay. Mr. White offered comment in regard to the above subject and later covered the same ground with Mr. Hornbeck.

Mr. White prefaced his remarks by a rather lengthy dissertation on difficulties experienced by the Foreign Bondholders Protective Council as a result of the attitude displayed by the representatives of British bondholders with reference to outstanding obligations of various South American governments—a dissertation which Mr. White later termed as “neither here nor there”. Mr. White then said that he had been in communication with J. P. Morgan and Company with regard to the views of the Chinese Bondholders Committee at London on the question of the seniority of various Chinese loans and added that the British Committee was contending for payment in full of interest due on the British loans of 1898 and 1908. Mr. White said that the Foreign Bondholders Protective Council, by letter under date May 22 addressed to the British Committee had, in effect, stated that China’s

⁷⁷ Stanley K. Hornbeck, Adviser on Political Relations.

difficulties in meeting its obligations arose not so much from a lack of funds as from a lack of foreign exchange; that a lien on the customs or salt revenues did not give any priority of rights on exchange; and that the Council was therefore in agreement with the Chinese Government that all loans should take a proportionate cut so that there might be no discrimination in the amount of exchange provided for each loan. Mr. White then asked whether the Department would suggest to the Chinese Embassy in Washington, perhaps orally and informally, that the text of any proposed announcements in regard to the future service of Chinese loans be made known to the Council and to J. P. Morgan and Company sufficiently in advance of publication to permit of comment and possible revision if revision should be necessary. Mr. White said that J. P. Morgan and Company had pointed out the possibility that the "Treasury bills" which the Chinese Government proposes to issue in amounts equal to the total unpaid service of outstanding loans might require registration with the Securities and Exchange Commission, a possibility which the Chinese authorities might not be aware of and that therefore it was highly desirable that the Council and J. P. Morgan and Company have an opportunity to study and to offer comment in regard to the specific terms of any Chinese Government proposal before publication thereof.

Mr. Hornbeck said that the subject under discussion would require careful consideration and suggested that Mr. White inform the Department in writing of his views and of his request of the Department in regard to the matter. Mr. White said that he would be pleased to do so and would suggest to J. P. Morgan and Company that they also write to the Department.

893.51/6906

Memorandum of Conversation, by the Assistant Chief of the Division of Far Eastern Affairs (Mackay)

[WASHINGTON,] June 2, 1939.

Responsive to requests made of the Department by J. P. Morgan and Company (see Mr. Arthur Anderson's letter of May 31⁷⁸) and by the Foreign Bondholders Protective Council (see Mr. Francis White's letter of May 31⁷⁹), Mr. Mackay telephoned to Mr. Tsui of the Chinese Embassy in regard to the recent proposals of the Chinese Government with respect to the service of its obligations secured on the Customs and Salt revenues. Mr. Mackay referred to the requests made of the Chinese Embassy by J. P. Morgan and Company and by the Foreign Bondholders Protective Council to

⁷⁸ Not printed.

⁷⁹ Not found in Department files.

the effect that the texts of any proposed announcements in regard to the future service of Chinese loans be made known to them sufficiently in advance of publication to permit of study and of comment should any revision seem desirable. Mr. Mackay said that, as any proposals of the Chinese Government affecting American bondholders would require careful consideration and might possibly present complications in view of the existing regulations of the Securities and Exchange Commission, it would seem desirable from the point of view of all concerned to accord to the representatives of the American bondholders ample time in which to study and to offer comment in regard to such proposals. Mr. Mackay expressed the hope that the Chinese Government would see its way clear to follow such a course.

Mr. Tsui said that he was aware of the desires of J. P. Morgan and Company and of the Foreign Bondholders Protective Council, as referred to above, and that he would at once refer the matter to the Chinese Ambassador with a view to acquainting the Chinese Foreign Office by telegram of the situation under discussion.

693.002/868 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, June 3, 1939—noon.

[Received June 3—10:45 a. m.]

258. Shanghai reports the receipt of a communication dated May 17 from the Inspector General of Customs referring to the promulgation on May 2 of an ordinance of the Wuhan municipality providing for the establishment of a "preparatory office of Customs Administration" apparently for the purpose of directing, supervising and controlling all customs matters. The Inspector General also reports that it is rumored that the Wuhan Municipal Tax Bureau is already collecting duty on native goods from inland places.

The British Embassy has received a similar report though it would appear that no such body as that reported by Maze has been established up to the present. The British think it would be wise for them to put in a word before the plan develops further. They have expressed the hope that we may see our way clear to take similar action.

The question is here raised whether the integrity of the Chinese Customs is involved by the reported action of an ordinance of the Wuhan municipality and if such is the case whether our position as set forth in telegram No. 686, October 26, 5 p. m.⁸⁰ should be

⁸⁰ *Foreign Relations*, 1938, vol. III, p. 746.

altered. The Department's instructions in the premises are respectfully requested.

Repeated to Hankow and Chungking.

DOOMAN

893.51 Salt Funds/229 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, June 4, 1939—10 a. m.

[Received June 4—5 a. m.]

359. My 198, March 22, 3 p. m. Lockhart has been negotiating with the Chinese authorities concerned and has now handed to the Embassy a memorandum dated May 26 describing the way in which, contrary to various undertakings given by them, the Chinese have curtailed the authority of the foreign officials of the Salt Administration and asserting that this action creates doubt in regard to the value of the salt revenue as dependable security for American and other obligations. The writer inquires whether the Embassy might not be authorized to support his position with a view to the protection of American interests involved. Text of the memorandum is going forward by air mail.⁶¹

Writer informs me that he described the situation to the British Ambassador and the latter indicated willingness to join in representations to the Chinese Government. I infer it is the writer's intention to approach the French Ambassador when he arrives in Chungking about June 10.

Repeated to Peiping, Shanghai.

PECK

893.002/869 : Telegram

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

SHANGHAI, June 5, 1939—noon.

[Received June 5—6 a. m.]

462. Reference Tokyo's 258, June 3, noon, regarding Japanese interference with Customs at Hankow. Inspector General of Customs informs me of receipt of a further telegram from the Commissioner of Customs at Hankow from which it appears that the general in charge of the special service section (presumably of the Japanese Army) has verbally approved Japanese eviction of customs staff from post office and asserted that Hankow customs staff being appointees of Chungking regime are not yet authorized to collect duties and dues; that Japanese stationed at the post office and under-

⁶¹ Not printed.

stood to be under army special service section are arbitrarily releasing dutiable foreign and domestic parcels sometimes free and sometimes charging tax and whole system is haphazard; that the Commissioner considers further protest by himself useless for the present especially as the interpreting is extremely poor; and that reports of a tax levy on junk cargoes continue persistent but proof is not obtainable since no receipts are said to be issued.

Repeated to Tokyo, Hankow, Chungking and Peiping.

GAUSS

693.002/868 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, June 6, 1939—6 p. m.

153. Your 258, June 3, noon, and Shanghai's 462, June 5, noon, Hankow Customs. The Department desires that, in your discretion, after consultation with your British and French colleagues, you make an approach to the Japanese Foreign Office along the general lines authorized in the Department's 392, November 18, 1938, 8 p. m.,⁸² in regard to the seizure by the Japanese of control of the Chinese Maritime Customs at Canton.

Repeated to Hankow, Chungking, and Peiping.

HULL

693.002/872 : Telegram

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

SHANGHAI, June 7, 1939—11 a. m.

[Received June 7—7:45 a. m.]

470. Reference my No. 462, June 5, noon, regarding Customs at Hankow. Inspector General of Customs now informs me that the Commissioner of Customs at Hankow telegraphs that it is reported that postal parcels whether or not dutiable are being delivered free for the present, that is, the tax levy to which reference was made in previous telegrams has been suspended.

Repeated to Tokyo, Peiping, Chungking and Hankow.

GAUSS

893.51 Salt Funds/229 : Telegram

The Acting Secretary of State to the Chargé in China (Peck)

WASHINGTON, June 7, 1939—4 p. m.

99. Your 359, June 4, 10 a. m., in regard to Salt Administration.
1. Department is not in position, in the absence of knowledge of the

⁸² *Foreign Relations*, 1938, vol. III, p. 749.

contents of the memorandum of May 26 described in your telegram under reference, to decide whether the curtailment of the authority of the foreign officials of the Salt Administration is likely in fact to prejudice the position of obligations held by American citizens upon the security of the salt revenues in such a way as to give those holders a cause for legitimate complaint.

2. If you feel that the action complained of by Lockhart does afford ground for complaint on the part of American bondholders, the Department authorizes you in your discretion to make appropriate informal representations to the Chinese Government in regard to the matter.

Repeated to Peiping and Shanghai.

WELLES

893.51/6910

The Chinese Ambassador (Hu Shih) to the Secretary of State

WASHINGTON, June 8, 1939.

MY DEAR MR. SECRETARY: Referring to my note of April 26, 1939, enclosing two telegraphic messages from His Excellency Dr. H. H. Kung, Minister of Finance, I beg to enclose herewith a copy of another telegraphic message from Dr. Kung, dated Chungking, June 7, 1939, concerning the service of the loans secured by the customs and salt revenues and the deferment of payment of the Indemnity of 1901, for your consideration.

I am [etc.]

HU SHIH

[Enclosure]

TEXT OF A TELEGRAPHIC MESSAGE RECEIVED BY THE CHINESE EMBASSY FROM HIS EXCELLENCY DR. H. H. KUNG, MINISTER OF FINANCE, DATED CHUNGKING, JUNE 7, 1939

Please communicate the following to the United States Government:

Reference is made to the Chinese Ambassador's note of April 26, 1939, enclosing two telegraphic messages from His Excellency Dr. H. H. Kung, dated Chungking, April 14, 1939, and April 20, 1939, respectively. In these messages the Chinese Government expressed hope that the friendly foreign Governments can prevail upon Japan to allow utilization for debt service of the pledged revenues in the occupied areas, and laid before the Governments and the creditor representatives a plan relating to the part of debt service that would not be transferred under the proposed debt arrangement, which plan formed part of the proposal.

Negotiations with the creditor representatives while not yet com-

pleted appear to be approaching completion. The Chinese Government considers that it would be very desirable if contributions from the occupied areas could be forthcoming coincidental with the resumption of payments in pursuance of the arrangements, which, it is hoped, will shortly be agreed upon. It therefore again expresses the hope that the friendly Governments, either jointly or severally, will press the Japanese authorities for such contributions. In this connection the Chinese Government points out that the accumulation of collections in Chinese currency in Japanese banks is very prejudicial to the position of the currency in the occupied areas in the stability of which the friendly Governments have taken a very helpful interest.

Reference is also made to the Chinese Ambassador's note of April 3, 1939, requesting agreement to the deferment of payment of the Indemnity of 1901 temporarily during the hostilities, to which note so far no definite reply has been received. Inasmuch as certain loans are secured upon the Belgian, British and French portions, the Chinese Government very much hopes that, when the debt arrangement [is] announced, it will be possible also to announce the deferment of the Indemnity payment except in so far as required to cover payments in respect of loans secured thereon under the arrangement. An early favorable reply would be greatly appreciated.

893.51 Salt Funds/230 : Telegram

The Chargé in China (Peck) to the Secretary of State

CHUNGKING, June 9, 1939—9 a. m.

[Received 9:50 a. m.]

367. Department's 99, June 7, 4 p. m., Salt Administration. I have consulted with Tenney, American citizen and a responsible foreign official of the Salt Administration, and have learned that there is a new development in the situation. This is an attempt (reported to be well advanced) on the part of certain officials of the Ministry of Finance to complete the process of merging the Salt Administration with the Ministry of Finance thereby destroying the identity of the former. This attempt may lead the administration to seek to remove causes of complaint by the foreign officials in order to gain their support against the attempted merger. I have decided therefore to postpone action and to await developments. In any case Chu, Director General of the Administration, is engaged in setting up new offices in pursuance of the order for the evacuation of Chungking and the Minister of Finance is recuperating at a resort some 30 miles from the city.

Repeated to Peiping, Shanghai.

PECK

693.002/874 : Telegram

The Consul at Hankow (Jarvis) to the Secretary of State

HANKOW, June 9, 1939—noon.

[Received 3:25 p. m.]

126. 1. The Customs have not functioned at Hankow since the Japanese occupation except in the post office where they carried on for several weeks until the delivery of parcels was stopped. On May 27 the Japanese allowed the delivery of parcels to be resumed whereupon two foreign customs officers were sent by the Commissioner of Customs to the post office to collect duties but were prevented by the Japanese. For 2 days Japanese connected with the Military Police or Army Special Service Section controlled the release of parcels in some cases collecting arbitrary charges for which they gave no receipts. This was stopped by higher Japanese authority and the post office has since been delivering parcels without interference and with no payment of duty.

2. I am informed by the Commissioner of Customs that about 3 weeks ago he suggested to Major General Morioka, Chief of the Japanese Army Special Service Section, that the Customs should be allowed to resume its functions here under arrangements similar to those made at Tientsin, Tsingtao and other occupied ports and that Morioka replied that the Customs will not be allowed to function as long as Hankow is within the war zone and the Yangtze River is closed (to general navigation). According to the Commissioner, Morioka declared that the Customs will be reestablished "some day" on the same basis as at other places in China; that the regulations promulgated by the "Wuhan special municipality" for the establishment of a "preparatory office of Customs Administration" have not been approved (by November 23 presumably); and that he had no knowledge of any Japanese sponsored organ collecting customs duties with official sanction. The Commissioner told me he had not been able to substantiate the rumors that native cargo bound for Hankow is being taxed en route.

3. The Director of Posts told me in strict confidence that the attempt of the Customs to resume functioning in the post office, about which he had not been consulted, had increased his difficulties. He would prefer in the interest of the Postal Administration and the public that the customs issue should be raised without involving the postal service. Both the Commissioner of Customs and the Director of Posts are British subjects.

Repeated to Chungking, Peiping, and Shanghai. Shanghai please repeat to Tokyo.

JARVIS

893.51/6912: Telegram

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

CHUNGKING, June 10, 1939—9 a. m.

[Received June 10—7:45 a. m.]

371. The Chinese Government informally inquires whether the American authorities concerned will entertain a proposal for modifying temporarily during [the hostilities?] the schedule of payment of the consolidated note into which are funded the flood relief and cotton-wheat loans. About United States dollars 10,000,000 remain due on the foregoing note out of about United States dollars 26,000,000 originally advanced. Current payments of about United States dollars 3,300,000 yearly include United States dollars 700,000 quarterly for principal plus interest of 5%.

The Chinese Government is most reluctant to raise this question in view of the much appreciated consideration received from the Export-Import Bank and other American Governmental agencies in these transactions and does so only because of real necessity. Realizing that these obligations differ from long-term bond issues the Chinese Government did not include them in the suspension of payments on customs debts announced January 15 last and duly paid the installment of March 31. Likewise it has not included them in the current debt negotiations which are approaching completion on a basis which if finally approved would reduce loan and indemnity payments from over United States dollars 25,000,000 to about United States dollars 10,000,000 per annum.

The note is secured on customs surtax about 80% of which is being detained by Japan and on consolidated tax revenue of which much the greater part has been seized or destroyed. Also Japanese interference with the Chinese currency and with foreign trade prevents current acquisition of foreign currency from which debt payments normally are made. In order to make such payments, China therefore must draw upon reserves which are now much reduced. It is of the utmost importance for China carefully to conserve its resources to meet vital needs of the country in its struggle for national existence.

In these circumstances the Chinese Government earnestly hopes that the American authorities concerned will be in position to agree to deferment temporarily during the hostilities of all or substantially all of the principal payments and if possible part of the interest. An early favorable reply would be appreciated as the next installment is due June 30.

Code text by mail to Peiping.

PECK

893.51/6914 : Telegram

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

CHUNGKING, June 10, 1939—11 a. m.

[Received June 11—2 p. m.]

373. Young has handed the Embassy the text of a communication telegraphed to Washington, London and Paris on June 6 concerning debt service⁸³ and also a memorandum telling of informal discussions that have been going on between him and the British Ambassador in the hope of finding a way of dealing with customs collections in Japanese occupied territories that would be accepted by the Japanese Government and to which the Chinese authorities could refrain from making objections. He desired that the Department be informed of these conversations in conjunction with the communication in reference. Memorandum follows and Young requests that it be treated as strictly confidential.

"Following receipt of the communication made by the Chinese Government about April 20 to the American, British, and French Governments concerning treatment of debt service that would remain unpaid under its debt proposal, which communication expressed the hope that friendly foreign governments can prevail upon the Japanese to allow utilization for debt service of pledged revenues in occupied territory, the British Ambassador inquired as to the position as regards the Anglo-Japanese customs agreement. Mr. Young pointed out that the chief specific difficulties encountered by the Chinese Government other than points of principle were (1) payment by customs officers to the Yokohama Specie Bank of customs collections; (2) payment to Japan of arrears of the Japanese portion of the Boxer Indemnity; (3) payment to Japan of future monthly installments of the latter; and (4) transfer of \$27,000,000 from the Hong Kong and Shanghai Bank to the Yokohama Specie Bank.

As to these four points, he pointed out, the first was dealt with as a matter of *force majeure*; the third no longer arises in the same form because payment of all portions of the indemnity was suspended on January 15 last and the Japanese cannot complain if all are treated alike; and the fourth point need not be considered now as under the terms of the customs agreement the money should now come to China. There remains only the second point, namely, arrears of Japanese Boxer Indemnity payments.

The British Ambassador asked whether some formula could be devised for this, and Messrs. Young and Rogers⁸⁴ informed him that the formula which would appear least objectionable to China would be a setoff as of January 15, 1939, among (a) accumulated loan quotas calculated on the lines of the customs agreement; (b) the \$207,000,000 [*sic*] accumulated in the Hong Kong and Shanghai Bank, and (c) the Chinese dollars equivalent of arrears of the Japanese portion of the Boxer

⁸³ See telegraphic message received by the Chinese Embassy from the Chinese Minister of Finance, June 7, p. 839.

⁸⁴ Cyril Rogers, of the Bank of England, Adviser to the Chinese Ministry of Finance.

Indemnity. In case of such a setoff the Chinese Government would receive a cash contribution which in note [*effect?*] would be reimbursement of part of the sums already paid for debt service, but the [*as to?*] points of principles, chief of which under such a scheme would be non-payment in respect of internal loans, could be covered by a reservation. Affirmative action by the Chinese Government would be necessary but it should be understood that the Government would not blame the customs officers for action that would be technically necessary in drawing checks and passing entries.

On May 5 after sounding Dr. Kung the British Ambassador telegraphed the foregoing to London and Tokyo. The British Ambassador at Tokyo telegraphed on May 7 that the Japanese if prepared to discuss the matter would raise two main points: (1) They would object to paying quota after China had suspended debt payment; and (2) they would insist upon payment of the Indemnity in sterling. The first point, in Ambassador Craigie's opinion, could probably be overcome. The second would give very little difficulty, as during the previous negotiations the Japanese had insisted upon being treated therefore as other powers in respect of payments, and as the others were paid in foreign currency the Japanese would insist upon this also. Craigie said that if he took up the matter on the line suggested he would like to have in reserve an assurance that the Chinese Government would not blame the customs people if they paid over the sterling as under *force majeure*. Finally, Craigie wanted to know whether the suggested setoff would be against the \$27,000,000 in the Hong Kong and Shanghai Bank or otherwise; whether a balance would be due to China from quota accrued as of January 15th, 1939; and the amount of the accumulated Boxer Indemnity deposit as of that date and at present.

The British Ambassador's action on the telegram of May 17 was delayed because he was travelling. On June 2 he asked Mr. Young's views through the British Diplomatic Mission at Chungking."

Young's reply dated June 2 follows:

"1. As thus [*to?*] possible Japanese objection to payment of quota with debt payments temporarily suspended, the Japanese Government has accepted the principle of contributions from occupied areas for customs debt service but no workable arrangement has been yet devised. Although at present payments cannot be transferred into foreign currency, practical effect would be given to this principle by contributions in Chinese currency which, in accordance with the practice well established in other situations where debt payments cannot be transferred, would not encourage withdrawal from the market.

2. Payment of Boxer Indemnity in sterling would be much more embarrassing to the Chinese Government than a [payment] of the equivalent in Chinese currency against funds detained in Japanese banks.

(a) It would reverse the policy adopted in September 1937 of setting aside these funds so that during hostilities they would not be available to China's enemy.⁸⁵ On several occasions the

⁸⁵ See telegram No. 214, September 18, 1937, 3 p. m., to the Ambassador in Japan, *Foreign Relations*, 1937, vol. III, p. 865, and memorandum of September 24, 1937, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 729.

Chinese Government has refused assent to transfer of these funds to Japan directly or indirectly (e. g., by *force majeure* or loans). From the Chinese side treating Japan like other countries by making payments during hostilities is open to obvious objection of principle.

(b) For the Japanese to pay themselves in effect out of funds they have detained would be less affirmative than release of funds now effectively controlled by China. In such case the Chinese Government could more readily overlook technically necessary action by customs officers, e. g., drawing checks and passing entries.

(c) Although in either case the Chinese Government would get considerably more than it would give, payment in foreign currency which Japan greatly needs would be hard to defend.

3. As to the specific inquiries, accrued loan quota payable to China are about \$50,000,000 as of January 15, 1939, including the \$27,000,000 which were to have been paid over to Yokohama Specie Bank under clause 5 (d) of the customs agreement. The set off should be against the remainder in Japanese banks and thus a deduction from sums in effect in Japanese hands.

[Payment due on?] Japanese indemnity from September 1937 through December 1938 is about pounds 500,000. Since indemnity payments to all governments were discontinued as from January 1st, 1939, the total today would be the same if all governments be put on an equal footing.

Sir Frederick Maze⁸⁸ could furnish more exact figures."

Code text to Peiping.

PECK

893.51/6915 : Telegram

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

CHUNGKING, June 12, 1939—9 a. m.

[Received June 12—7 a. m.]

377. My 373, June 10, 11 a. m.

1. This morning Arthur Young expressed to me great concern lest the increasingly strained relations between Japan and Great Britain should nullify British efforts to induce the Japanese to agree to the arrangement for customs funds which he had been discussing with the British Ambassador. He thought that the Japanese would receive representations from American and French sources more favorably than from British and he added that ample reason for such representations seemed to exist in that immobilization of quota payments for the service of obligations would protect the interests of foreign bondholders while retention of the quota by the Japanese would assist them [the Japanese] to frustrate attempts at support of Chinese currency in the success of which attempts foreign in-

⁸⁸ British Inspector General of Chinese Maritime Customs.

terests are so closely involved. He regretted that he personally was so prominent in the initiation of the strictly confidential discussions of this proposal. He hoped the Department would realize that it was necessary for some individual to take this initiative because there were phases of the arrangement to which the Chinese Government could not give more than the tacit approval that would be indicated by refraining from interposing objections.

2. Does the Department desire that I repeat my 373 and this telegram to Shanghai for Tokyo or to Peiping?

PECK

893.51/6913 : Telegram

*The Secretary of State to the Counselor of Embassy in China (Peck),
at Chungking*

WASHINGTON, June 14, 1939—5 p. m.

102. Your 371, June 10, 9 a. m., and 372, June 10, 10 a. m.,⁸⁷ in regard to cotton and wheat credits to China. When you next see Arthur Young please ask him to inform the Chinese Minister of Finance that the inquiry made by the Chinese Government is receiving consideration by this Government.

HULL

893.51/6915 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, June 23, 1939—7 p. m.

171. Reference Chungking's 373, June 10, 11 a. m., and 377, June 12, 9 a. m., which Chungking is being instructed to repeat to you.

1. The Department has received from the Chinese Embassy here a communication under date June 8, 1939, transmitting *inter alia* the request of the Chinese Minister of Finance that the Government of the United States urge the Japanese Government to allow utilization of the customs and salt revenues in the areas occupied by Japanese forces for the servicing of the debts secured thereon.

2. Department desires that after consultation with your British and French colleagues, and if either or both of them are prepared to take substantially similar action, you make an informal approach at an opportune time to the Japanese Ministry for Foreign Affairs and express orally the hope that the Japanese authorities will make available the customs and salt revenues in the areas occupied by Japanese forces for the servicing of the obligations secured thereon, basing

⁸⁷ Latter not printed.

your expression of hope upon the American interest in certain of those obligations. The Department would desire that you refrain from becoming involved in any negotiations or discussions that might occur in regard to ways and means for making available the revenues in question for the servicing of the obligations secured thereon.

3. Chungking should repeat to Tokyo its telegrams under reference. Repeated to Chungking and Peiping.

HULL

493.11/2284

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Mackay) of a Conversation With the First Secretary of the Chinese Embassy (Tsui)

[WASHINGTON,] June 28, 1939.

Mr. Tsui called at the Department upon invitation and was received by Mr. Mackay.

Mr. Mackay referred to that portion of the telegram addressed to the Chinese Embassy by Dr. H. H. Kung under date June 7 (see last paragraph of the enclosure to the Chinese Embassy's communication of June 8), in which comment is made in regard to the payment of the Boxer Indemnity, and inquired in what respect the Department's communication of April 22, 1939, which deals with the subject under discussion, is inadequate.

Mr. Tsui replied to the effect that the text of the Department's communication of April 22 had been telegraphed to Chungking and that he assumed that Dr. Kung's inquiry of June 7 was occasioned by the fear that, as the Department had not specifically agreed to the postponement of the payment of the American share of the Boxer Indemnity, China might be classed as a defaulting nation under the terms of the Johnson Act.⁸⁸

Mr. Mackay remarked that the 1908 and 1925 remissions of the American share of the Boxer Indemnity resulted from joint resolutions of Congress and from Presidential executive orders; that the Department is not in position affirmatively to agree to the postponement of Indemnity payments; that in the past when the Chinese Government has under special circumstances requested a postponement of payments the Department has, in each instance in which postponement ensued, merely refrained from expressing objection thereto; that no difficulties had resulted from such procedure; that in the present instance it is most unlikely that the terms of the Johnson Act would be construed as being applicable or that the question would

⁸⁸ Approved April 13, 1934; 48 Stat. 574.

even arise; and that in view of all the attending circumstances it would seem desirable that the Chinese Government refrain from pressing the issue.

Mr. Tsui said that he had not hitherto understood the position of the Department in regard to the matter under discussion; that the reasons underlying the form of the Department's reply to the Chinese Embassy's request for postponement of Indemnity payments were now clear to him; and that the Embassy would at once endeavor, by means of a telegraphic communication, to explain the situation to Dr. Kung.

On taking leave Mr. Tsui expressed appreciation for the cooperative spirit displayed by the Department in not raising objections to the postponement of payments of the American share of the Indemnity.

893.51/6926 : Telegram

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

WASHINGTON, June 28, 1939—5 p. m.

117. Your 371, June 10, 9 a. m. The Board of Trustees of the Export-Import Bank asks that the Government of China be informed that the Export-Import Bank is willing to modify in the following particulars the terms of the consolidated note executed on May 28, 1936, by the Chinese Ambassador to the United States on behalf of the Chinese Government:

- (a) That payment of each of the instalments of \$700,000 due on the last days of June, September and December of 1939, on the last days of March, June, September and December of 1940, and on the last day of March 1941 will be deferred for a period of 2 years and
- (b) That the interest rate of 5 percent per annum borne by the consolidated note will be reduced to 4 percent per annum for a period from July 1, 1939, to March 31, 1941, inclusive.

The Export-Import Bank desires that the Chinese Government be further informed that in all other respects the terms of the consolidated note shall remain unchanged and that the Bank of course understands that the interest payment due on June 30, 1939, will be made in accordance with the terms of the consolidated note.

Repeated to Peiping.

HULL

693.002/885 : Telegram

The Consul at Swatow (Young) to the Secretary of State

SWATOW, July 1, 1939—9 a. m.

[Received 1 p. m.]

34. Referring to the Department's telegram dated June 28, 6 p. m.,⁸⁹ regarding reorganization of Chinese Maritime Customs in Swatow, the Japanese Army Service Corps is in complete control of the customhouse and the officers and employees of the Chinese Maritime Customs are temporarily displaced. The measures to be taken in connection with the resumption of customs operation have not been disclosed but it's safe to assume that certain demands will be presented such as the diversion of customs revenue into the Japanese hands instead of being remitted to Chungking and the imposition of a new tariff schedule favorable to Japanese products to replace the one hitherto in force. There is no indication when the matters will be settled. I shall keep the Department informed.

Repeated to Chungking.

YOUNG

693.002/886 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

Tokyo, July 5, 1939—2 p. m.

[Received July 5—11:40 a. m.]

311. Department's 153, June 6, 6 p. m. via Shanghai, Hankow Customs. In view of the fact that the Customs at Hankow are not functioning and not desiring to raise the customs issue as it might interfere with the delivery of parcel post the British are taking no action for the present. In view of the information contained in Hankow's 126, June 9, noon, we will not take any action unless otherwise instructed.

DOOMAN

893.51/6932 : Telegram

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

CHUNGKING, July 7, 1939—7 p. m.

[Received July 7—8:20 a. m.]

426. Department's 117, June 28, 5 p. m. Consolidated note of May 28, 1936. Information contained in Department's telegram under reference has been communicated to the Ministry [*Minister ?*] of Finance who has made the following reply dated July 5.

"Referring to the Embassy's communication enclosed with your letter of June 29 to Mr. Arthur N. Young, I very much appreciate

⁸⁹ Not printed.

the willingness of the Export-Import Bank to modify the terms of the consolidated note of May 28, 1936 by deferring principal payments and reducing the rate of interest for the periods specified.

The Chinese Ambassador at Washington has been duly authorized to execute in appropriate form on behalf of the Chinese Government a modification of the terms of the note in the manner indicated in the enclosure to your letter.

With reference to the final paragraph of the reply transmitted I may add that the interest payment due on June 30, 1939, was duly made in accordance with the terms of the note."

Repeated to Peiping.

JOHNSON

893.51/8958

The Chinese Ambassador (Hu Shih) to the Secretary of State

WASHINGTON, July 29, 1939.

MY DEAR MR. SECRETARY: Acting under instructions of His Excellency, Dr. H. H. Kung, President of the Executive Yuan and concurrently Minister of Finance, I beg to inform you that the Chinese Government has earnestly desired to make an arrangement for the resumption of foreign loan services as the result of the negotiations initiated last Spring. However, the unexpected difficulties in the Shanghai Exchange Market in the past few weeks which were considerably aggravated by the Japanese threat to the Foreign Concessions, have forced the Government to delay putting forward the offer it had intended to make. Under existing circumstances, the Government has been most reluctantly forced to the conclusion that it is not able at this time to proceed with these negotiations and to transfer abroad the substantial amounts of foreign exchange contemplated.

I am instructed to assure you that the interruption of debt services which is caused solely by the Japanese invasion is only temporary and that the Chinese Government intends to resume full services of its obligations at the earliest possible moment.

Similar communications are being sent to the Belgian, British, French and German Governments.

I shall be greatly obliged if you will be good enough to explain this situation confidentially to the Foreign Bondholders' Protective Council, J. P. Morgan & Company and Continental Illinois National Bank and Trust Company of Chicago.⁹⁰

I am [etc.]

HU SHIH

⁹⁰In acknowledging this note on August 4 the Acting Secretary of State informed the Chinese Ambassador that this had been done.

693.002/899

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government have been informed that the Inspector General of Customs in China has received confidential and reliable information to the effect that when the new puppet government is set up by Wang Ching-wei, it will officially appoint him Inspector General of Customs for service in the occupied areas and will appoint someone else if he declines to serve in this capacity.

It is understood that the Inspector General of Customs has conveyed information of this unofficial Japanese demand to the United States Consul General in China and also to the French Ambassador in China.

His Majesty's Embassy has now been instructed to ascertain the views of the United States Government as to the advisability of parallel representations being made at Tokyo against the action contemplated which would of course involve a flagrant violation of the integrity of the customs. A similar enquiry is being made of the French Government.

WASHINGTON, July 31, 1939.

693.002/900 : Telegram

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

SHANGHAI, August 3, 1939—noon.

[Received 7:45 p. m.]

684. Reference Department's No. 274, August 1, 6 p. m.⁸¹ This matter was reported by my mail despatch No. 2366 of July 21⁸² now en route. As it is not expected that a new central government will be set up for several months, the Inspector General himself suggested a mail report. He stated that he would not accept any appointment under a locally established "government" unrecognized by the Powers and in conflict with the Chinese Government and that he has let this be known informally to the Japanese authorities but at the same time he has intimated that some other means might conceivably be devised in connection with the direction of customs routine matters, meaning, as he explained to me orally, some sort of "working contact" with the authorities of the occupied areas as is done at present. He understands, however, that the new "government" would demand formal acceptance. He expresses the hope that "the interested powers will endeavor so far as may be feasible to strengthen the position of the

⁸¹ This telegram reported the British *aide-mémoire* of July 31, *supra*.

⁸² Not printed.

Inspectorate by deprecating any movement calculated to upset the existing system by the introduction of regional control or other form of interference contravening treaty rights and established practice".

It seems to me that there is nothing to be done until the establishment of the new central government when the matter may be considered in the light of the general situation then existing.⁹³ The Counselor of the Japanese Embassy told me a few days ago that he expects the new government to be established in the autumn.

The second ranking officer of the Chinese customs is a Japanese named Kishimoto who has served for some years in the post of Chief Secretary.

Repeated to Chungking and Peiping.

GAUSS

893.51 Salt Funds/237a : Telegram

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

WASHINGTON, August 12, 1939—3 p. m.

156. Reference your 367, June 9, 9 a. m. and Shanghai's despatch no. 2291, June 23, 1939,⁹⁴ in regard to foreign personnel of the Chinese Government Salt Administration.

Having in mind the considerable holdings by American citizens of financial obligations secured on the Chinese Government salt revenues, the Department desires your comment (a) on any progress made in, and possible effects of, the proposed completion of merger of the Salt Administration with the Ministry of Finance and (b) on the question of the advisability of an informal approach by you to the Chinese Minister of Finance in regard to the more effective employment of the foreign staff of the Salt Administration and in regard to betterment of service conditions affecting the foreign staff.

Sent to Chungking. Repeated to Peiping and Shanghai.

WELLES

693.002/904 : Telegram

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

WASHINGTON, August 16, 1939—5 p. m.

304. Your despatch 2361, July 19, 1939,⁹⁵ in regard to the proposed assignment of a Commissioner of Customs of American nationality to Shanghai.

⁹³ The Department, in replying to the British Embassy on August 9 said it was "inclined to concur in the Consul General's view." (693.002/900) A similar oral reply was given in response to an inquiry of the French Embassy (693.002/918).

⁹⁴ Latter not printed.

⁹⁵ Not printed.

The Department concurs in your view that the assignment of officers of the Chinese Maritime Customs is a matter of internal administration of the Customs service in which the American Government would feel that it should not interfere. At the same time, if an American citizen were assigned as Commissioner at Shanghai and there developed opposition from any foreign source to his appointment, the Department might, in its discretion, be inclined to inquire into the reason for such opposition and if the situation appeared to warrant such action, to make representations, in accordance with the position which this Government has consistently maintained, to the effect that the integrity of the Customs administration should be respected and that the Inspector General should be free to assign Customs personnel as the requirements of the service might dictate.

You may so inform the Inspector General.

Sent to Shanghai. Shanghai please repeat to Tokyo. Repeated to Chungking and Peiping.

WELLES

893.51 Salt Funds/239 : Telegram

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

CHUNGKING, August 21, 1939—8 a. m.

[Received 10:34 a. m.]

503. Department's 156, August 12, 3 p. m., and 158, August 15, 6 p. m.⁹⁶

1. The Embassy learns that the so-called merger of the Salt Revenue Administration with the Ministry of Finance is the scheme for the establishment of uniform salary scale described in the last enclosure to Shanghai's despatch of June 23,⁹⁷ that execution of the plan is meeting with opposition and that it probably will have little effect on the separate identity of the Salt Administration.

2. In regard to the advisability of an informal approach by me to the Minister of Finance with a view to bringing about effective use of the foreign Salt Staff and improvement in their service conditions, my view is that such an approach if tactfully made might prove informative but would probably fail to accomplish the particular results desired, for the following reasons:

3. The Chinese consented to employ foreigners in the Salt Service in the beginning only because it was a condition of the Reorganization Loan Agreement⁹⁸ and efforts to curtail their authority began some years ago and have been accelerated especially since the enactment of

⁹⁶ Letter not printed.

⁹⁷ Not printed.

⁹⁸ See despatch No. 845, May 6, 1913, from the Chargé in Peking, *Foreign Relations*, 1913, p. 180.

the new organic law in 1936. My impression is that after the Salt Administration had been set in operation with foreign cooperation they felt that the presence of foreigners was useless and a reflection on their capacity as Chinese. While racial pride and jealousy furnished part of the motive for eliminating the foreign staff it seems from statements made by foreign personnel of the Administration regrettably probable that during the incumbency of T. C. Chu, the present Director General, more sinister reasons of financial irregularity have crept in. Nevertheless outward deference to the principle of the joint authority and responsibility of foreign and Chinese officers has been paid by the Minister of Finance.

4. The Chinese presumably hoped that by professing loyalty to the idea of joint authority they would enhance the value of the salt revenue as security for future loans and might also induce the interested powers to intervene to recover some of the salt revenues seized by the Japanese. I believe that the Chinese have long ceased to attach real value to the technical assistance rendered by the foreign officials and that it would be difficult to persuade them to restore genuine authority to such officials unless they were led to expect that practical benefits like those described would follow. No evidence has come to me that any such expectation would be warranted.

5. In any event I cannot but observe that the course of recent events would make present insistence on this point of foreign participation in the Salt Administration seem captious and a misplacing of emphasis. Payment of customs secured obligations was suspended on January 15 and of salt secured debts on March 26 (see Embassy's despatch of April 15⁹⁹) while a general moratorium was declared on July 27 (see message transmitted through the Chinese Embassy¹). On the outcome of the present struggle of the Chinese Government for existence depends the whole structure of American and European investment and enterprise in China. The emergency demands concerted attention to the major issue. It is my frank opinion that unless it derives assistance from events or sources abroad neither party to this conflict can win a decisive victory. However, unless China succeeds in regaining its territorial and administrative integrity it seems to me safe to predict that at least the larger part of its funded indebtedness will become a total loss. Japan will not share the spoils of war whatever they may be.

6. I am not expressing these views as the basis of advice that the Western Powers intervene to save China from extinction although I believe that economic assistance particularly in the support of Chinese currency would affect powerfully the outcome of the struggle but to explain why I regard the present moment as inopportune for pressing

⁹⁹ Not printed.

¹ See the Chinese Ambassador's note of July 29, p. 850.

such a comparatively minor detail as the administration of the salt revenue especially in view of the fact that we do not like [*that it is?*] the Japanese invasion and not the lack of effective foreign authority that really menaces the interests of the American bondholders.

7. I wish to add that I have both sympathy and admiration for the loyal foreign officials of the Salt Administration who have given devoted and effective service under heavy discouragement and now find themselves (with the exception of Lockhart, who is paid in foreign currency) pauperized through depreciation of the Chinese currency. I do not blame Tenney² and others who have submitted their resignations. The Chinese Government also is struggling with a problem of the utmost difficulty and importance—that of providing out of its diminished resources the amount of salt required by the people at prices within their reach knowing from experience that if it fails there will be riots. The entire situation is one that evidently calls for constructive advice and assistance rather than contentious criticism.

Repeated to Peiping, Shanghai.

JOHNSON

693.002/913: Telegram

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

CHUNGKING, August 29, 1939—noon.

[Received August 29—8 a. m.]

514. Reference Shanghai's 747, August 18, 5 p. m.,³ collecting of customs revenues in new currency. The Embassy has received a note from the Ministry of Foreign Affairs under date of August 28, which, after outlining the arguments contained in Shanghai's telegram under reference, goes on to say that repeated instructions have been issued by the Chinese Government prohibiting the collection of customs revenues in the "bogus" dollars and arbitrary changes in the value of the gold unit are illegal, that such action on the part of the Commissioner of Customs unit are illegal, that such action on the part of the Commissioner of Customs at Shanghai will constitute violation of the laws and ordinances, jeopardize the Customs Administration and cause financial disturbances that will be prejudicial to the interests of foreign and Chinese traders, and that a telegram has been sent instructing the Inspector General to investigate and stop the aforementioned activities. The note observes that this matter is of vital concern to the friendly powers and requests that the American Government take steps to check the attempts of the Commissioner of Customs at Shanghai to "jeopardize the Customs Administration and cause financial disturbances".

²R. P. Tenney, an American.

³Not printed.

A similar note has been delivered to the British and French Embassies.

The Embassy is acknowledging the note under reference, saying that the matter has been referred to the American Government.⁴

Repeated to Peiping and Shanghai. Shanghai please mail to Tokyo.

JOHNSON

693.002/912: Telegram

*The Secretary of State to the Counselor of Embassy in China
(Lockhart), at Peiping*

WASHINGTON, August 30, 1939—6 p. m.

183. Swatow's August 25, noon, to you and your 448, August 26, 3 p. m.,⁵ Swatow customs.

1. Please instruct the American Consul at Swatow to refrain from initiating a discussion with the Japanese authorities in regard to the customs situation at Swatow and to report, with a request for instructions, any proposal for protests by the interested consuls.

2. Unless you perceive objection not mentioned in your telegram under reference, please transmit the following message to Tokyo as from the Department:

"Reference Swatow's 41, July 12, noon, to Department and August 25, noon, to Peiping and Peiping's 448, August 26, 3 p. m.,⁶ all of which Peiping is hereby requested to repeat to you.

Department authorizes you to protest to the Japanese Foreign Office, on the grounds outlined in Department's 392, November 18, 8 p. m.,⁷ against the seizure and continued occupation by the Japanese authorities of the Chinese Maritime Customs house at Swatow.

You may, in your discretion, consult your interested colleagues in regard to possible similar but separate protests by them."

3. If and when Tokyo has taken the action above authorized you should inform Swatow thereof.

Sent to Peiping. Repeated to Chungking.

HULL

⁴The Chinese Embassy was orally informed on September 7 that "the Department had taken up with the Japanese authorities, through the American Embassy at Tokyo, the matter of customs collections at Shanghai." (693.002/932)

⁵Neither printed.

⁶None printed.

⁷*Foreign Relations*, 1938, vol. III, p. 749.

693.002/915 : Telegram

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

SHANGHAI, August 31, 1939—8 p. m.

[Received August 31—8 p. m.]

789. Reference Chungking's No. 514, August 29, noon, and my No. 780, August 31, 4 p. m.⁸ regarding the Customs.

1. Inspector General of Customs has received the instructions of the Minister of Finance as outlined in Chungking's number 514 with the addition that he is told to stop the enforcement of the proposal, otherwise the Shanghai customhouse should be closed and the Commissioner of Customs suspended. It is also known that the Central Bank which is the duty collecting agency at the customhouse has been instructed to withdraw if bogus currency is to be expected.

2. The efforts of the Inspector General and the Commissioner of Customs to obtain cancellation or postponement of the proposals have been without avail, but it will be observed from my telegram number 780 that the orders issued represent a substantial modification of the original proposal reported in my 747, August 18, 5 p. m.⁹

3. Inspector General is reporting to the Minister of Finance outlining the order as issued in the name of the Reformed Government, stating that all possible efforts have been made to prevent the scheme from materializing, but that it has been intimated that the Commissioner at Shanghai will have no option but to comply under *force majeure*.

4. He is saying to the Minister of Finance that while he will of course close the Shanghai Customs as instructed by the Minister in case he is not able to stop the enforcement of the order, he suggests that the Minister reconsider the instruction to close. He is pointing out (1) that so long as the Customs in the occupied ports function under the direction of the Inspector General the Chinese Government will still hold a nominal sovereignty over such customs establishments and both Chinese and foreign trade, shipping and finance will continue to benefit thereby; (2) that if Customs is closed the Japanese or the bogus authorities will be in a position to reopen it immediately, and if they secure control of the Shanghai establishment they will probably assume control of all customhouses in the occupied ports and administer them according to their own wishes, as they did in Manchuria, with resulting loss of China's prestige before the world, and inevitable restrictions upon the legitimate trade of Chinese and foreign merchants; (3) that the friendly powers which have a great interest in the integrity of the Customs may strongly oppose the Government action in closing the principal customhouse; and (4) that from every

⁸ Latter not printed.

⁹ Not printed.

point of view, therefore, economically, financially and politically, it is to the advantage of the Chinese Government that the Customs administrative integrity in the occupied ports should be maintained.

5. Apparently there is a real danger that the Chinese Government will insist upon the closing of Customs when the Japanese will take over here and at all ports in the occupied area.

6. The Inspector General feels therefore that at the same time that the interested powers might endeavor to persuade Tokyo to cancel or postpone the new procedure here, representations should also be made at Chungking to persuade the Chinese Government not to disrupt the whole Customs Administration by measures to close the customhouse.

Repeated to Chungking, Peiping and Tokyo.

GAUSS

693.002/916 : Telegram

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

SHANGHAI, September 1, 1939—6 p. m.

[Received September 1—4:20 p. m.]

789. First reference my 785, August 31, 8 p. m. The Central Bank of China Collecting Agency for the Shanghai Customs House withdrew from its premises last night and a collecting unit from the Yokohama Specie Bank took over this morning upon the invitation of the Chinese Superintendent of the Shanghai Customs, an appointee of the Nanking regime. The collection rate set by the Superintendent today is 1 customs gold unit equals Chinese dollars 3.925 and the rate notified today by the Central Bank to the Inspectorate General (which would have been the collection rate enforced had the Central Bank Collecting Agency remained) is Chinese dollars 2.565. Duties assessed today are therefore 53.18 percent higher than those that would have been assessed had the new arrangement not been enforced. However, due to the use by the Chinese Customs of the official rate instead of the open market rate for the Chinese dollar in calculating the duty paying value of imports (as explained by the Acting Commercial Attaché in my telegram No. 1275 of September 29, 1 p. m., 1938¹⁰) the duty payments in terms of foreign currencies actually collected from importers have recently been only some 27 percent of the statutory duties on values converted at open market exchange rates rather than official rates and today are still but little over 41 percent of those statutory duties.

Repeated to Peiping and Chungking, by air mail to Tokyo.

GAUSS

¹⁰ Not printed.

693.002/917 : Telegram

The Chargé in Japan (Dooman) to the Secretary of State

TOKYO, September 2, 1939—noon.
[Received September 2—4 a. m.]

451. Department's 183, August 30, 6 p. m., to Peiping. I delivered yesterday at the Foreign Office a first person note¹¹ protesting against seizure and occupation of Swatow Customs. Having done so, I invited the British and French Ambassadors to take similar action. They are consulting their respective Governments.

Repeated to Peiping. Peiping please repeat to Chungking and Swatow.

DOOMAN

693.002/913 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, September 2, 1939—4 p. m.

273. Reference Chungking's 514, August 29, noon, and Shanghai's 747, August 18, 5 p. m., 780, August 31, 4 p. m.,¹² and 785, August 31, 8 p. m., all in regard to collection of customs revenue at Shanghai.

Department desires that you consult your British and French colleagues and, if and when they are prepared to take substantially similar but separate action, approach the Japanese Foreign Office in such manner as you may deem appropriate and lodge an emphatic protest, on the ground of our broad interest in the administrative integrity of the Chinese Maritime Customs, against the attempts by the Japanese-sponsored regime at Shanghai to dictate to the Customs authorities in regard to the currencies and exchange rates to be used in the collection of customs duties at Shanghai, and ask that effective steps be taken to cause the abandonment of those attempts.¹³

Sent to Tokyo. Repeated to Chungking and Peiping.

HULL

893.51/6995

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

No. 2532

SHANGHAI, September 15, 1939.
[Received October 17.]

SIR: There has lately been considerable concern amongst the foreign officials of the Chinese Maritime Customs Service and the Chinese

¹¹ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 748. For the Japanese reply, No. 204, December 28, see *ibid.*, p. 750. For second Japanese note, No. 12, January 25, 1940, see *ibid.*, p. 753.

¹² Telegrams Nos. 747 and 780 not printed.

¹³ The American, British, and French Embassies in Japan made written representations on September 6 and 11, respectively (693.002/934); for the American note, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 749.

Government Salt Revenue Administration regarding the effect of a new Chinese Public Treasury Law on those services and on China's financial integrity and credit in foreign banking and financial circles.

In this connection, Dr. O. C. Lockhart, Associate Director General of the Salt Administration and one of the financial advisers of the Government, has given me, in confidence, copy of a memorandum on the subject which is being submitted by him to the Minister of Finance. A copy is enclosed.¹⁴

At the same time, Dr. Lockhart gave me, for confidential information, copies of an exchange of letters between the British Embassy and the Minister of Finance at Chungking,¹⁵ from which it appears that the Ministry of Finance has continued to give assurance to foreign financial interests of the integrity of loan services and of the foreign staffs of the Customs and Salt. In this connection copy of the memorandum of August 8, 1939, to the Minister of Finance from Dr. Arthur N. Young,¹⁵ one of the American financial advisers, is of interest.

Dr. Lockhart also handed me an extract¹⁵ from the (at present, unissued) prospectus for the Canton-Meih sien and Pukow-Siangyang railway loans in which the Chinese Ambassador at London, Mr. Quo Tai-chi, makes the statement that the Minister of Finance of the Chinese Government has given assurances that the Organic Law of 1936 (that is, the organic law relating to the Salt administration) is to be interpreted as maintaining the existing rules, regulations and practices of the administration of the Salt revenue and that the foreign Associates of the Salt service continue to have joint responsibility in the essential functions of that administration and in the joint signature of official documents.

I have received from a strictly confidential source (not, I may say, from the Customs) a copy of a communication and an official despatch of the Inspector General of Customs to the Chinese Government authorities at Chungking, in reference to the new Treasury Law and the Customs service. I enclose copies.¹⁶

It will be observed from the documents enclosed that it is apparently the advice of the foreign officers of the Chinese Government connected with the Customs and Salt administrations and the servicing of the loans secured on Customs and Salt revenues, that the new Treas-

¹⁴ Not printed. In this memorandum Dr. Lockhart stated: "Article 19 of the Public Treasury Law appears clearly to contemplate the continuance of past practice with respect to the custody and disbursement of funds destined for the service of loans, but it is understood that at a recent conference on application of the law it was decided that loan funds would be held in custody of the Treasury and disbursed by them at due dates. The proposed procedure disregards the provisions of several loan contracts, which specify that loan funds shall be kept in custody of the Inspector-General of Customs or Chief Inspectors of Salt Revenue."

¹⁵ Not printed.

¹⁶ Neither printed.

ury Law, if enforced in respect of those administrations, may seriously affect the credit and standing of the Chinese Government in foreign banking and financial circles.

It is astounding to me that at a time when China is so dependent upon the foreign Powers and their financial resources, and when it is evident that she will be dependent upon them for many years to come in any reconstruction following the hostilities with Japan, China goes merrily on her course of gradually breaking down foreign control and influence in the Customs and Salt services, to the prejudice of her own interests through resulting lack of confidence on the part of foreign bondholders and financial and banking interests in the integrity of the Chinese Government and the integrity of the security of existing loan services.

Respectfully yours,

C. E. GAUSS

693.002/931 : Telegram

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

SHANGHAI, September 22, 1939—3 p. m.

[Received September 22—10:59 a. m.]

847. Reference my No. 829, September 16, 3 p. m.,¹⁷ regarding Customs. British Ambassador informs me that it is the British and French view that it is now time to make parallel representations at Tokyo in an effort to forestall the action the Japanese contemplate shall be taken by the Wang Ching Wei Government when it is established, regarding the Inspector General of Customs. I stated that I would inform the Department and the Ambassador. If, as the Customs seem to think, there is some Japanese influence opposed to the proposal that the Inspector General should be required to accept or reject appointment by the new regime, action at this time might be desirable. It is now expected that the new government under Wang will be established in late October or early November.

Repeated to Chungking, Peiping and Tokyo.

GAUSS

693.002/931 : Telegram

The Secretary of State to the Chargé in Japan (Dooman)

WASHINGTON, September 30, 1939—3 p. m.

297. Reference Shanghai's 847, September 22, 3 p. m., Chinese Maritime Customs. Please consult your British and French colleagues and, if and when they are prepared to take separate but substantially

¹⁷ Not printed.

similar action, make an approach to the Japanese Foreign Office in such manner as you may deem appropriate along lines as follows:¹⁹

The Government of the United States has received information to the effect that a new regime sponsored by the Japanese forces in China may soon be established at Nanking; that it is planned that such new regime will offer to the Inspector General of the Chinese Maritime Customs a position similar to that which he now holds under appointment by the National Government of China; and that should he refuse to accept that offer he would be prevented from further exercise of his present functions as Inspector General in Chinese territory under the control of the new Japanese-sponsored regime.

It is the opinion of the Government of the United States that such action would constitute a serious disruption of the Chinese Maritime Customs. This Government has repeatedly expressed to the Japanese Government its rightful interest in the preservation of the administrative integrity of the Chinese Maritime Customs and it again earnestly requests that the Japanese Government refrain from action, either directly through its own agencies or indirectly through the agencies of any Japanese-sponsored regime in China, tending to destroy the administrative integrity of the Chinese Maritime Customs.

Sent to Tokyo via Shanghai. Repeated to Chungking and Peiping.
HULL

893.51 Salt Funds/241

*The British Embassy to the Department of State*²⁰

AIDE-MÉMOIRE

The attention of His Majesty's Government in the United Kingdom has recently been drawn to the serious deterioration in the status of the foreign personnel of the Chinese Government Salt Administration. Complaints are made of the inadequacy of the present scale of salaries and allowances, the unhealthy conditions in which foreign members of the Administration have to live in the interior, the unsatisfactory nature of the present arrangements for furlough, and the increasing denial in practice of the principle of joint responsibility of the Chinese and foreign staff in the conduct of the Administration. The first of these evils has now been greatly intensified by the recent fall in exchange and the increased cost of living in China, for which no adequate compensation has been offered to the foreign staff. These conditions are likely to accelerate the retirement, even on the existing highly unsatisfactory financial terms, of the already diminished foreign

¹⁹ The American, British, and French Embassies in Japan made similar representations on October 26; for the American note, No. 1405, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 750. For the Japanese reply, see note No. 203, December 28, *ibid.*, p. 751.

²⁰ Handed on October 12 by the Counselor of the British Embassy to the Chief of the Division of Western European Affairs.

personnel, and if present conditions continue, it seems that it will not be long before foreign influence in the Service is reduced to negative proportions.

In view of the reports to the foregoing effect, the Commercial Counsellor to His Majesty's Embassy at Shanghai asked Mr. F. E. L. Dobbs, a British subject who is an Associate District Director of the Chinese Government Salt Administration, at present stationed in what remains of the former headquarters in Shanghai, to prepare a confidential memorandum with special reference to the present conditions of service of the foreign staff, and the remuneration received by them from the Chinese Government. A copy of this memorandum is enclosed.²¹ Attached to this memorandum is a Statement, copy of which is also enclosed,²¹ showing the monthly salaries of the foreign staff of the Salt Administration as at June, 1939, with comparative figures of expectations based upon the rates of salary and exchange in 1924.

Representations have been made from time to time by His Majesty's Embassy at Shanghai to the Chinese Government, in which it has been made clear that His Majesty's Government regard the questions of treatment of the British personnel in the Service and of the joint responsibility of the foreign staff as bearing on the general efficiency of the Service, with considerable interest. Satisfactory assurances have from time to time been received from the Chinese Government on these points. Very little has, however, been done by the Chinese Government to implement these assurances, and in the meantime, of course, the political situation—with most of the salt-producing areas falling into the hands of the Japanese, or at any rate to such an extent as to make them impossible of access for the foreign staff—has greatly deteriorated, for reasons for which the Chinese Government cannot be held responsible. It is, moreover, the unfortunate fact that the question of the treatment of the foreign personnel generally has in the past tended to become obscured by questions of the treatment of certain individuals amongst them.

With the recent drop in exchange, the position of the foreign staff of the Salt Administration appears to be fast becoming quite untenable. In the meantime the Chinese Government have found it necessary to default in the provision of the comparatively small quotas required from the salt revenues for the service of the loans secured on those revenues. This action may be justifiable in the circumstances, but it seems far less justifiable for the Chinese Government to reduce the foreign personnel of the Administration to such a negligible factor that, if and when the Chinese Government regains control over its territories, the efficiency of the Service will have been so gravely impaired that the second best source of revenue in the country, which

²¹ Not printed.

will be urgently required as a basis for new loans for rehabilitation, will, for that reason apart from any others, no longer be available to anything like the same degree as previously.

When the Organic Law was promulgated by the Chinese Government in 1936, and threatened to reduce the position of the foreign personnel to that of mere "assistants", as the enclosed memorandum puts it, assurances were obtained from the Chinese Government that the principle of joint responsibility would not be impaired. These assurances seem to have carried little weight in practice, and it now appears that at a meeting of the Ministry of Finance in Chungking on the 10th June last, new regulations were submitted for approval under which no new foreign officers are to be appointed to the Service, and the pay of the existing officers is to be still further reduced.

The Commercial Counsellor to His Majesty's Embassy has discussed this matter with the United States Commercial Consul at Shanghai who, it is understood, feels equally that some effective action should be taken to remedy the present situation.

In the circumstances His Majesty's Government would welcome an expression of the views of the United States Government as to the desirability of some form of parallel action with His Majesty's Government in conjunction eventually with the French Government vis-à-vis the Chinese Government whether by means of formal representations or in the form of a personal approach to the Chinese Minister of Finance. The recent declaration by the Chinese Government of default in payments of the Customs and Salt loans would appear to afford a convenient pretext for raising the matter with the Chinese Government at this time and enquiring their intentions. No doubt any fresh representations in the sense proposed would, as before, meet with the usual assurance of good intentions, but it appears nevertheless essential to insist that genuine steps be quickly taken to put a stop to the present disintegration of the foreign staff of the Service.

WASHINGTON, October 5, 1939.

893.51 Salt Funds/241

The Department of State to the British Embassy

AIDE-MÉMOIRE

The Department of State has given careful consideration to the British Embassy's *aide-mémoire* bearing date of October 5, 1939, and handed to an officer of the Department on October 12, in regard to the status of the foreign personnel of the Chinese Government Salt Administration.

During the past summer the unfortunate service conditions affecting the foreign personnel of the Chinese Government Salt Administration were studied by the Department with special reference to the question whether the curtailment that had occurred of the authority of the foreign personnel of the Salt Administration was likely to prejudice the position of American-held obligations secured upon the salt revenues. At that time, having in mind the history of efforts by the Chinese Government to curtail the authority of the foreign personnel of the Salt Administration, the record of the Chinese Government in consolidating and servicing its obligations secured on the customs and salt revenues, and the circumstances attending the Chinese Government's announcement of the temporary discontinuance of the servicing of those obligations, the Department reached the conclusion that a formal approach to the Chinese Government in regard to the situation of the foreign personnel of the Chinese Government Salt Administration might seem to be a misplacing of emphasis and might imply a lack of appreciation of the grave situation confronting the Chinese Government.

The Department of State is, however, now instructing the American Ambassador in China to use his good offices, as appropriate occasions present themselves in conversations with the responsible Chinese officials, to the end that service conditions affecting the foreign personnel of the Salt Administration may be improved.

WASHINGTON, October 19, 1939.

893.51 Salt Funds/241 : Telegram

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

WASHINGTON, October 19, 1939—8 p. m.

197. Your 503, August 21, 8 a. m., in regard to foreign personnel of the Chinese Government Salt Administration. On October 12 the British Embassy here presented to the Department an *aide-mémoire* in which there was outlined the unfavorable service conditions under which the foreign personnel of the Salt Administration is operating and in which a statement was made that the reduction that has been and is occurring in the authority and responsibility of the foreign personnel will, if permitted to continue, so gravely impair the efficiency of the Salt Administration service that one of the best sources of revenue in the country will no longer be available for rehabilitation purposes in the same measure as before, if and when the Chinese Government regains control over China. An expression of this Government's views was requested in regard to some form of parallel approach to the Chinese Government by representatives of the American, British and French Governments.

The Department is replying that the question under reference was given consideration during the past summer and that, having in mind all of the circumstances affecting the situation of the foreign personnel, the Department came to the conclusion that a formal approach to the Chinese Government might be construed as a misplacing of emphasis and as a lack of appreciation of the grave situation in which the Chinese Government finds itself. The Department is adding, however, that it is now requesting that you informally use your good offices, as appropriate occasion therefor occurs in your conversations with the responsible Chinese officials, to the end that the service conditions of the foreign personnel in the Salt Administration may be improved. Please be guided accordingly.

Sent to Chungking. Repeated to Peiping and Shanghai.

HULL

893.51/6995 : Telegram

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

WASHINGTON, November 2, 1939—1 p. m.

215. Department's 197, October 19, 8 p. m., foreign personnel of the Chinese Government Salt Administration. It is suggested that the information contained in Shanghai's despatch no. 2532, September 15, 1939, and its enclosures may be of use in connection with your approaches to the Chinese.

Sent to Chungking. Repeated to Shanghai.

HULL

693.002/955 : Telegram

The Consul General at Hong Kong (Southard) to the Secretary of State

HONG KONG, December 14, 1939—9 a. m.

[Received December 14—8:40 a. m.]

444. The Commissioner of Chinese Maritime Customs here has confidentially told me that the Japanese Consul General in Hong Kong has been endeavoring to procure his approval to a proposal to permit the Japanese to reopen and administer the approximately 14 Chinese Customs Stations in the Kowloon District which have been closed since the Japanese occupation of the hinterland. My informant states that he has refused to support the proposal but that the Consul General persistently returns to the subject presumably upon instructions from Tokyo.

The Commissioner says that only 2 of the former total of 16 stations in his district are now open and operating under his control and that they are regularly reconnoitered and sometimes bombed, usually by one lone Japanese plane. Direct hits are occasionally scored on buildings of light construction but with the use of dugouts and camouflage for assembled merchandise there has been little damage and no recent injury to members of the Customs staff. He says that these two stations, which are on Mirs Bay near Hong Kong, are clearing about a million Hong Kong dollars worth of merchandise per month divided more or less evenly between imports and exports. This trade is based on Hong Kong and is carried mainly by launches which run usually at night between Mirs Bay and this colony.

Repeated to Chungking, Canton and Peiping for Tokyo.

SOUTHARD

[Correspondence on the undeclared war between Japan and China is continued in volume IV.]

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