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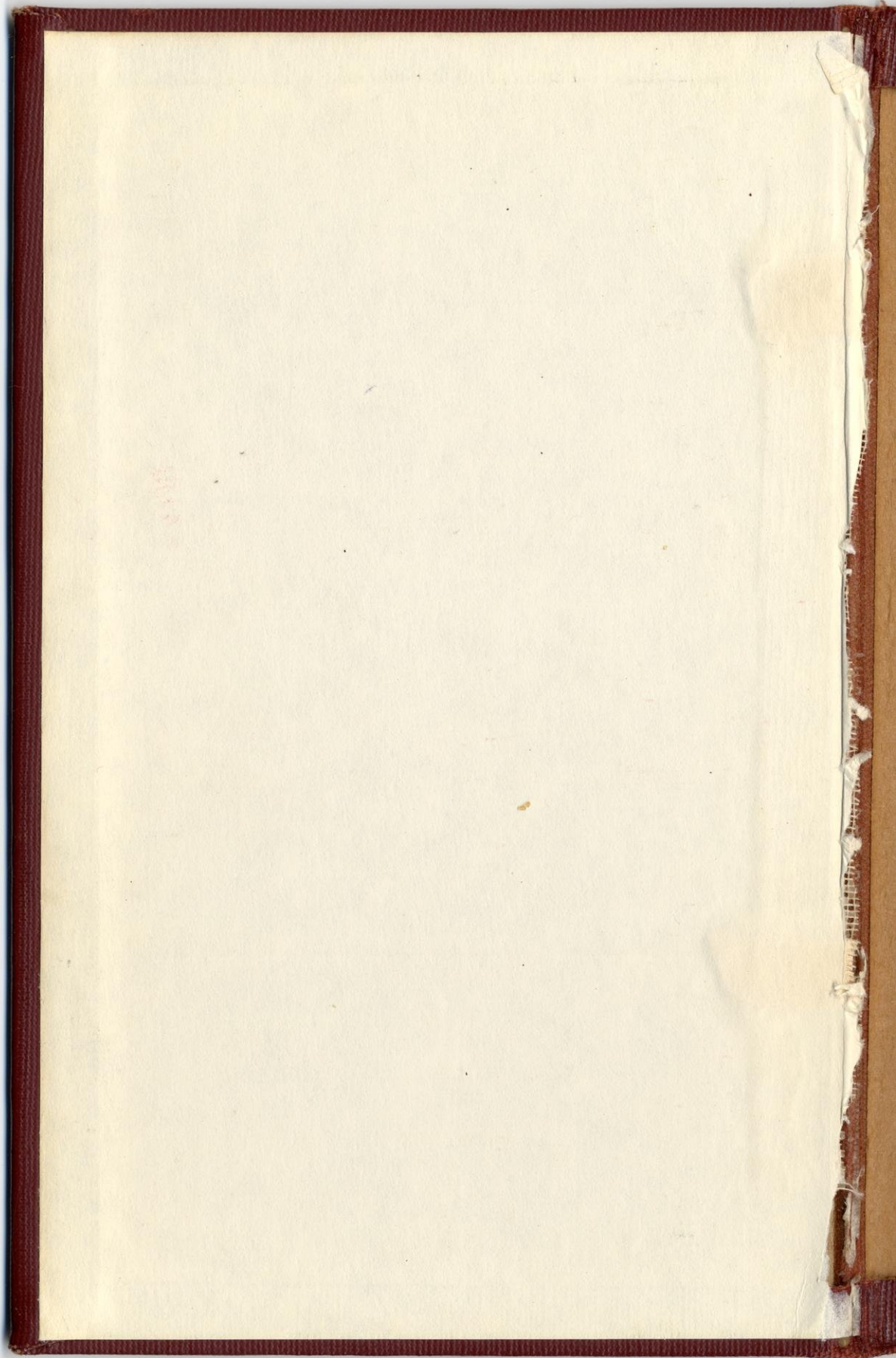
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Foreign Relations of the United States 1949

Volume IX

The Far East:
China



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PREFACE

This volume was prepared under the general supervision of E. Ralph Perkins, formerly Chief of the Foreign Relations Division, which is currently headed by Fredrick Aandahl.

The compilers of this volume were Francis C. Prescott, Herbert A. Fine, and Velma Hastings Cassidy. Preliminary planning and review of the volume was provided by Mr. Perkins, John G. Reid, and Mr. Prescott. Final review was the responsibility of S. Everett Gleason, formerly Chief of the Foreign Relations Division, and of Rogers P. Churchill and Mr. Reid.

The editors acknowledge with appreciation the assistance provided them by the historians of the Department of Defense, including those of the Joint Chiefs of Staff. They are also grateful for the cooperation of the National Security Council, the Department of Defense, and the Central Intelligence Agency, all of which concurred in the declassification of various papers for release herein. Thanks are also due to those foreign governments that kindly granted permission for the publication of certain of their documents in this volume.

The Publishing and Reproduction Division (Willard M. McLaughlin, Chief) was responsible for the technical editing of this volume.

The index was prepared by Mr. Prescott.

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

PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

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

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. These

volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Department's files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

1352 *Editorial Preparation*

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

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

1353 *Clearance*

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

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

CONTENTS

	Page
PREFACE	III
Policy of the United States with respect to the question of recognition:	
I. Preliminary exchanges with the British; efforts to develop a "commonfront" policy; Anglo-American consultation during July and August; Anglo-French-American conversations at Washington in September (January-September)	1
II. Chou En-lai's bid of October 1 for recognition: <i>de facto</i> recognition by the British Government; reaction of the United States and other Powers (October)	93
III. Reactions to British proposal of November 1 favoring <i>de jure</i> recognition of the Peiping regime; British decision of December 15 to accord <i>de jure</i> recognition in January 1950; opposition by the United States to hasty recognition (November-December)	149
Policy of the United States toward Formosa (Taiwan): concern of the United States regarding possible conquest by Chinese Communists	261
United States military assistance to China: policy decisions respecting further military aid to China	472
United States economic aid to China:	
I. Enactment of legislation for continuation of aid to China after expiration of China Aid Act of 1948	599
II. Problems encountered by the United States in furnishing aid to China under the China Aid Act of 1948	610
III. Urgent requests by the Chinese Government for a program of broad economic assistance	671
IV. Mission to the United States of Dr. Kan Chieh-hou to obtain moral support, financial assistance, and military aid and advice.	699
Financial relations between the United States and China: Chinese requests for assistance in fiscal matters	729
Trade policy of the United States toward Communist-occupied China:	
I. Basic policy respecting trade controls and negotiations with the British in efforts to implement such controls	817
II. Chinese Communist foreign trade practices: by-passing of American Consulates; Soviet-Manchurian trade agreement	906
III. Interest of the United States in Chinese Communist efforts to revive trade with Japan	973
IV. Efforts by the United States to establish controls which would limit shipments of petroleum products to Communist-occupied China	1002
Interest of the United States in Sino-Soviet negotiations respecting trade and aviation rights in Sinkiang	1037
Status of Tibet: consideration of policy of the United States in view of Tibetan claim of independence and danger to Tibet from Communist-dominated China	1064
Efforts of the Chinese Government to close to shipping Chinese ports under Communist control; attitude of the United States regarding restrictions and defiance of them by certain American flag vessels	1098

Withdrawal of United States Naval Forces from Tsingtao	1191
Evacuation of Americans from China:	
I. Continued planning for evacuation and protection of property; Department opposition to return of dependents to China; and situation after Chinese Communist occupation of Nanking and Shanghai (January-July 5)	1210
II. Arrangements for evacuation of Americans from Shanghai on the <i>General Gordon</i> : evacuation warning on Formosa (July 7-December 30)	1261
Publication of China White Paper	1365
INDEX	1413

POLICY OF THE UNITED STATES WITH RESPECT TO THE QUESTION OF RECOGNITION

I. PRELIMINARY EXCHANGES WITH THE BRITISH; EFFORTS TO DEVELOP A "COMMONFRONT" POLICY; ANGLO-AMERICAN CON- SULTATION DURING JULY AND AUGUST; ANGLO-FRENCH-AMERI- CAN CONVERSATIONS AT WASHINGTON IN SEPTEMBER (JANUARY- SEPTEMBER)

893.01/1-349

*Memorandum of Conversation, by the Chief of the Division of Chinese
Affairs (Sprouse)*

[WASHINGTON,] January 3, 1949.

Subject: Question of Recognition in the Event of the Establishment
of a Successor or Coalition Government in China

Mr. Ford¹ called by appointment today and informed me that his Embassy had received a message from the British Foreign Office setting forth the views of the British Government on the foregoing subject. Mr. Ford handed me the attached document,² which, he said, was the gist of the message: While the Foreign Office was inclined, at first thought, to think that this question might not arise if the Communists should enter a coalition government, the Foreign Office was prepared to examine the problem exhaustively as soon as a coalition should be formed. (Mr. Ford commented that the Foreign Office had indicated that it was of the opinion that both the question of recognition and the economic deficiencies of a Communist-controlled China would place bargaining weapons in the hands of the British Government in connection with protection of its interests in China.) In brief, Mr. Ford said that the British position on this question was much the same as that of the United States Government.

Referring to the position of the British Ambassador³ at Nanking in the event of the withdrawal of the Chinese Government, Mr. Ford stated that the Foreign Office had now instructed him to report on the situation at the time of such withdrawal and seek instructions from the Foreign Office prior to taking any action.⁴

¹ J. F. Ford, First Secretary of the British Embassy.

² *Infra.*

³ Sir Ralph Stevenson.

⁴ For correspondence in regard to the location of embassies in China, see vol. VIII, "Successive moves of the Embassy office in China in efforts to remain near the headquarters of the Chinese Government."

893.01/1-349

*The British Embassy to the Department of State*⁵

The Foreign Office state that, at first sight, they are inclined to think that the question of giving or withholding recognition may not arise if the Communists enter a coalition government. If His Majesty's Ambassador and staff are in Nanking, it is likely that they would do business with the new government on a *de facto* basis.

The Foreign Office say that they will examine the problem exhaustively as soon as a coalition takes place.

893.00/1-549

The British Ambassador (Franks) to the Acting Secretary of State (Lovett)

WASHINGTON, 5 January, 1949.

Mr. Bevin⁶ has recently discussed the situation in China with his Cabinet colleagues and he has asked me to bring to your notice the substance of a Memorandum drawn up for Cabinet consideration. This document⁷ is long and detailed and I have thought it better to prepare a short summary⁸ rather than to ask you to explore the whole range of its findings. I should accordingly be grateful if you would nominate one of your advisers to confer with Mr. Graves⁹ of my staff on the details of the Memorandum.

Mr. Bevin hopes that, as a result of our joint study of the views and comments set out in the Memorandum, it may be possible to suggest the broad basis of a plan for dealing with the rapidly developing position in the Far East.

[Enclosure]

The British Embassy to the Department of State

CHINA

Foreign Office appreciation of the present position

The Government of the Republic of China under President Chiang Kai-shek has virtually lost control of the whole area north of the River Yangtze as the direct result of military failures in Manchuria. Moreover, it seems highly unlikely that the Government forces, whose fighting value is at best problematical, will be able to hold their

⁵ Handed to the Chief of the Division of Chinese Affairs (Sproue) by the First Secretary of the British Embassy (Ford) on January 3.

⁶ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁷ *Infra.*

⁸ Not attached to file copy.

⁹ Hubert A. Graves, Counselor of the British Embassy.

ground on the south bank of the river in the face of determined pressure from the Communists. The northern Communist armies now hold the initiative and are making an all-out drive on Nanking with intent to dislodge the Central Government from its capital. The consensus of expert opinion is that success is merely a matter of time.

Following on the Communist occupation of the whole area north of the Yangtze the political situation is likely to take one of two courses:—

(a) The disappearance from the scene of Chiang Kai-shek, when the Government, headed by Vice-President Li Tsung-jen and with the support of certain military leaders, may try for a military truce and a subsequent political arrangement by negotiation with the Communists. As the latter hold the whip hand it is likely to rest with them whether such proposals are accepted or not.

(b) The withdrawal of Chiang Kai-shek and a small number of his henchmen to Canton or elsewhere in China proper in a die-hard attempt to continue the war. Although this is compatible with Chiang Kai-shek's present mood and would suit those members of the Kuomintang¹⁰ whose fate is linked with his, it is doubtful whether the essential quota of Government servants would be able or willing to follow. In any event he and his associates are now so completely discredited in the eyes of the people that their continued existence as a shadow Government would be entirely dependent on American support, which would have to be much more extensive than anything so far undertaken. A withdrawal by Chiang Kai-shek to Formosa would hardly affect the course of events on the mainland.

Of the above alternatives the first is likely to be the more welcome to the Communists, since it would give them control over Nanking and Shanghai without driving away the administration and financial elements, which they would find it difficult to replace from their own resources. Further, if they attach importance to the international position they would thus step overnight into the controlling position in a recognised government. To the extent that they are guided by Moscow they may be encouraged to pursue this policy with a view to strengthening the opposition to the Western Democracies in the United Nations.

Much has been written which suggests that the Chinese Communists are Communists only in name. Justification for this view lies in the fact that up to the present there has been no need for Moscow to take any overt hand in the civil war or for the Chinese Communists to make any appeal to their compatriots save that of relative honesty, relative efficiency, an ostensibly fair deal in the matter of land reform and above all peace. On the other hand, a careful study of their official pronouncements shows that their leader, General Mao Tse-tung,¹¹ pays

¹⁰ Chinese Nationalist Party.

¹¹ Chairman of the Central Committee of the Chinese Communist Party (CCP).

at any rate whole-hearted lip service to the Marxist-Leninist philosophy, while the Moscow press has avoided comment on his successes with such scruple over so long a period as to suggest that it is in the interests of Soviet policy not to trouble the pipe dreams of the complacent. Inasmuch as the Communist administration appears to be better disciplined and less corrupt than that of the Central Government, it may well be that if it is their policy to develop and exploit Chinese resources their initial attitude to foreign technical ability and trading interests may be encouraging. It would, however, be highly dangerous to assume that this initial honeymoon period would be likely to ripen into any enduring bond.

It is nevertheless clear that, by whichever means the Communists acquire control of the area south of the Yangtze, they must inherit the economic ills of the land. If they do so by entering a coalition Government the drain on the exchequer from civil war would cease, but it may be assumed that the Central Government has already reached such a degree of insolvency that the advantage of this is likely to be more apparent than real. In our present ignorance of Communist internal policies it is impossible to measure the degree of handicap which this state of affairs will represent, but its existence can hardly fail to induce the Kuomintang's successors to seek to maintain the country's export trade in order to pay for her essential imports, and in this connexion some initial benefit to British traders may accrue. Moreover, it is also fair to assume that General Mao Tse-tung will be hard put to it to provide the necessary administration, the more so as the number of his efficient followers is probably limited and will become somewhat thin on the ground when the whole of China falls to be administered. This factor, too, may well tend to shelter British interests for some time from the full force and fury of Communist theory and practice. But of the ultimate intentions of Mao Tse-tung, if he succeeds in surmounting local difficulties, there is little doubt.

In either event the Communists would almost certainly require a fairly lengthy period of preparation and infiltration before moving very far south of the Yangtze. Even in the absence of any coherent opposition, therefore, the eventual Communist domination of the whole of China is likely to take some little time. Whether advantage can be taken of the breathing space to create an anti-Communist bloc (for which American aid would be essential) remains to be seen, but as already indicated, the prospects are very doubtful.

Conclusions

(i) *In China* it can be assumed

(a) that there will be an immediate period of dislocation when foreign commerce generally will be at a low ebb;

(b) that there will follow a period in which the economic difficulties of the Communists may dispose them to be tolerant towards foreign trading interests;

(c) that the present nationalist tendency towards foreign investments and capital installations will thereafter be enhanced and that the intention to work rapidly towards the exclusion of the foreigner will be strengthened;

(d) that there would be a tendency to subject foreign trade, both import and export, to close government control, which would not altogether suit the types of trade United Kingdom merchants aim at doing in and with China.

British interests in China may be able to carry on at least for a time and His Majesty's Government will encourage this.

(ii) *Political effects on adjacent Areas.*

Communist activities in adjacent areas will be increased and the contacts between Communists in these countries will be facilitated. The economic effects in these areas are likely to be an increase in labour troubles and disturbances in the production of vital commodities.

Recommendations

(a) That His Majesty's Government should consult with the Governments of the United States, the British Commonwealth, France, Netherlands, Burma and Siam as to the best means of containing the Communist threat to our several interests.

(b) That all necessary steps should be taken to strengthen our position in colonial territories in the area.

(c) That we should consider, in consultation with friendly Powers whether the economic weakness of Communist-dominated China might not offer an opportunity to secure reasonable treatment for our interests.

WASHINGTON, 5 January, 1949.

893.01/1-349

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] January 6, 1949.

Subject: Question of Recognition in the Event of the Establishment of a Successor or Coalition Government in China

Participants: Mr. Graves, Counselor, British Embassy
Mr. Butterworth, Director for Far Eastern Affairs
Mr. Sprouse, CA

In order to obtain clarification of the British Foreign Office message to the British Embassy regarding the above-mentioned subject,

the substance of which was handed to the Department by Mr. Ford of the British Embassy on January 3 (copy attached),¹² Mr. Sprouse asked Mr. Graves to call today.

Mr. Graves confirmed that the British Government did not view as automatic recognition of any government that might be established as successor to the present Chinese Government, whether formed in accordance with the Chinese constitution by elements of the Government following a resignation of the Generalissimo¹³ or by a coalition including the Chinese Communists. Mr. Graves also indicated that the British Government, before extending recognition, expected to study carefully the character of any successor government in China, having particular regard to the extent of its control and the manner in which it would deal with British interests and trade.

Mr. Butterworth stated that this Government held similar views on this question and that the question of recognition was one which provided bargaining power vis-à-vis the Chinese Communists. Mr. Graves indicated that the British Government was of the same mind on this point and continued that the economic deficiencies of China gave further bargaining power to the western powers and that he would wish to discuss this and related problems early next week in connection with the British Embassy's memorandum left by the British Ambassador with the Acting Secretary on January 5.¹⁴

893.00/1-549

*The British Embassy to the Department of State*¹⁵

CONTINUATION OF PAPER ON CHINA ATTACHED TO SIR OLIVER FRANKS'
LETTER OF 5TH JANUARY 1949 TO MR. LOVETT

Political Effects on Adjacent Areas.

(a) *Japan*

The spread of Communism in China will enhance the political and strategic importance of Japan as the most important non-Communist area in East Asia, and seems certain to strengthen the determination of the United States Government that Japan shall not fall under Communist domination.

(b) *Hong Kong*

Communist domination of China down to the Yangtze is not in the first instance likely to affect Hong Kong very seriously. The

¹² Printed on p. 2.

¹³ President Chiang Kai-shek.

¹⁴ *Supra*.

¹⁵ Handed to the Director of the Office of Far Eastern Affairs (Butterworth) by the Counselor of the British Embassy (Graves) on January 10.

colony's major problem is likely to be a steady stream of refugees. If, as may be expected, the Communists continue southward, they may well try to "soften up" Hong Kong by instigating strikes to coincide with their advance. Since labour in public utilities and on the waterfront in Hong Kong is mainly Communist in sympathy, such strikes might temporarily paralyse the colony. Serious clashes between Communist and Kuomintang supporters might also occur.

If all China were dominated by the Communists, the retention of Hong Kong as a British colony, in the absence of strong British naval and military forces, might depend on whether the Communists found the existence of a well-organised, well-run British port convenient for their trade with the outside world. In that event, while Hong Kong might be faced with a vast refugee problem, the colony could continue its life, but would be living on the edge of a volcano. Meanwhile the Communists would no doubt continue their infiltration tactics. If, on the other hand, the Communists were to demand the rendition of Hong Kong to China, they would use every method short of war to undermine it.

(c) *The Federation of Malaya and Singapore*

Communist control of China down to the Yangtze would not have such serious effects on Malaya as Communist domination of the whole of China, because most of the Malayan Chinese come from South China and because the Communist-controlled areas would not be contiguous to the frontier of French Indo-China. The following reactions among Malayan Chinese during such a period could, however, be expected, while some of the effects forecast below would also be felt—

(i) an intensification of Kuomintang activity. An increase in Kuomintang activity has already been reported in recent weeks (including paper plans for an underground cell system);

(ii) strong support for the China Democratic League and the Kuomintang Revolutionary Committee, which would increase if a coalition Government were formed in China;

(iii) increased political activity by the Chinese community, with agitation for increased representation of the Chinese in the Federal or State Councils, to which the Malays would react strongly.

Communist control of the whole of China would be a grave danger to Malaya and would mean that:—

(i) Militant communism would be very close to Malaya's northern frontier, with Siam and French Indo-China as poor buffers;

(ii) the morale of the Malayan Communists would be bound to improve;

(iii) there might very well be increased activity by China Communist Party agents infiltrating into Malaya. A number of China Communist Party agents are already reported to have reached Singapore;

(iv) a comparatively small increase in the successes of the Malayan Communists might have wide repercussions among the passive Chinese community, since Chinese morale as a whole in Malaya has never been good, and is very sensitive to bandit successes, intimidation, and propaganda;

(v) the Chinese population in general might well be even less ready to co-operate actively with the Malayan Government than at present. They will continue to sit firmly on the fence and hope that a Communist administration in China will turn out to be peaceful and reformist;

(vi) subversive activities by Kuomintang diehards might well continue, though admittedly without the backing of the Chinese Government, which it has hitherto enjoyed to the detriment of good government in Malaya;

(vii) there would be some increase in illegal immigration into Malaya and there might also be a demand for asylum for political refugees;

(viii) there would be repercussions among the Malays to any increase in Chinese political activity and also if militant communism were to spread in Indonesia.

(d) Sarawak and North Borneo

In Sarawak and North Borneo it is expected that Communist successes in North China will probably lead to an increase in Communist sympathies among the local Chinese population and reinforcement of present Communist attempts to persuade Chinese intelligentsia that national aspirations can now best be achieved through communism. At the same time a parallel increase in Kuomintang activity may be expected in the form of tightening control over registered societies, and increasing pressure on the Communists.

(e) India and Pakistan

The political consequences to India and Pakistan of Communist domination of China would be indirect but none the less formidable. They would be moderated or delayed to the extent that Communist domination did not spread over the whole of China. They would consist in the first instance of the great moral effect of China becoming a Communist State. India, and to a lesser extent Pakistan, are the field where Western and Asian civilisations meet, and there is always a tension between them. Hitherto, Russia has been a third factor; but the adoption of communism by a major Asiatic country would be

likely to cause it to be regarded in India and Pakistan more favourably than when it was predominantly a northern and western development. Although China has no common frontier with India, a Communist-dominated China would certainly result in a strengthening of communism in Burma, and the countries to the north of India—Tibet, Nepal and Bhutan—would gradually be penetrated by Communist influence. Thus there would at once be a threat of political and strategic encirclement of India and Pakistan's land frontiers by Communist states, which might in a relatively short time become a reality.

The political consequences of this situation may be summarised as follows:—

(i) The Indian Communists would derive enhanced prestige and greater influence. At present they are a small but vigorous minority. They would be fortified by the infiltration of Communist agents and Communist finance through Burma, Eastern Pakistan and through North-West Pakistan.

(ii) The Indian Communists would redouble their efforts to acquire influence over organised labour. They already have an influential trade union organisation under their effective domination. The agricultural population is illiterate and politically inert and therefore the urban population of India, which is small, has an influence out of all proportion to its size.

(iii) Any economic disaster, such as a famine, would give communism an opportunity to spread to rural areas.

(iv) The present attitude of neutrality on the part of India in foreign policy as between the Communist States and the Western democracies might harden as Communists rise to power in Asia. On the other hand, Hinduism is strongly opposed to communism in outlook and initially at any rate the Nehru¹⁸ Government would be likely to make a determined stand against communism, their ability to maintain it depending on their ability to provide progressive improvement of the economic condition of the masses.

(v) Burmese rice might be diverted away from India if Burma went Communist and joined in any attempt to overthrow the existing regime in India. This would be a powerful factor militating against an improvement in India's economic condition.

(vi) The Government of Pakistan would be likely to be strongly anti-Communist if their disputes with India, particularly over Kashmir, were disposed of. Until that happens, however, there is a possibility that Pakistan might prefer Russian support against India, even with some knowledge of Russia's price, to absorption or conquest by India, which she still regards as India's primary objective. A

¹⁸ Jawaharlal Nehru, Indian Prime Minister.

solution of the Kashmir dispute would therefore become even more essential from our point of view if the Chinese Communists succeed in controlling China.

(f) *Foreign Territories in South-East Asia*

In general, it may be expected that Communist successes in China will stimulate Communist movements throughout the area. If the Chinese Communists succeed in overrunning the whole of China, the possibilities of contacts with the Communists in Indo-China, Siam and Burma will be greatly facilitated, and it may be expected the Communist agitation in various forms will be accelerated to a marked degree.

Burma

The frontier between Burma and China is in part undefined, and in view of the fact that the present Burmese Government lacks effective control, it would be difficult to prevent the infiltration of Chinese Communists and a link-up between them and Burmese Communists against the Government were the whole of South-West China to come under Chinese Communist control. The general disorder in Burma might render it very difficult to cope with any considerable increase in Communist strength. There might also be the two further dangers of communism seeping over the border into India and Pakistan (East Bengal), and of the Chinese Communists pressing China's extensive frontier claims against Burma.

Indo-China

Direct contact between Communist-controlled China and Northern Indo-China will greatly increase the difficulties of the situation in the latter territory, where the failure of the French Government to take effective measures to seek a solution has resulted in an alliance between the Nationalist and Communist elements. The French forces in Indo-China are already stretched and if the Viet Minh were to be strongly reinforced as a result of Communist-controlled China, the situation might well become untenable for the French, at any rate in the north. There would be an increased threat to South-East Asia in general through the strengthening of the Communist position in Indo-China.

Indonesia

If the Dutch fail to reach a settlement in the near future there may easily be an alliance between Nationalists and Communists which might result in a long period of disorder with serious consequences not only to Indonesia but to South-East Asia as a whole.

Siam

There is quite a strong Chinese Communist element in Siam which so far has not caused serious trouble, but encouraged by the situation in China it might well get out of hand, and it is by no means certain

that the comparatively inefficient administration in Siam would be able to deal with it effectively. There is a considerable danger that if the Communists got out of control in southern Siam, they might combine with Communist elements in Malaya, thus rendering the suppression of the latter immeasurably more difficult.

Sinkiang and Tibet

Chinese Communist control in Sinkiang would facilitate increased Russian pressure, which is already apparent in that region. It is just conceivable, however, that if the Russians sought complete domination in Sinkiang, this might cause a rift with the Chinese Communists, whose nationalism would not take kindly to Russian acquisitiveness. In Tibet, it is not likely that the Tibetans would welcome Chinese Communists any more than they welcome attempts at domination by the National Government of China. But obviously the potential danger is greater as the area to the north and east of Tibet comes under Communist domination.

WASHINGTON, 10 January, 1949.

761.00/2-349: Telegram

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

WASHINGTON, February 3, 1949—6 p. m.

60. In connection reported intention Communists abrogate treaties with foreign powers, following comment for your use in your discretion if appropriate occasion offers. Respect for treaty obligations basis relations among modern states. UN¹⁷ attaches great significance state's record treaty observance as evidence state's ability and willingness discharge Charter¹⁸ obligations. One of reasons Albania failed admission UN was its refusal recognize international obligations under treaties. States desiring terminate or modify treaties obligated follow procedures prescribed in individual treaties.

ACHESON

893.01/3-2149

*The British Embassy to the Department of State*¹⁹

The following are the general views of the Foreign Office on the question of establishing relations with the Chinese Communists.

¹⁷ United Nations.

¹⁸ Signed at San Francisco, June 26, 1945; 59 Stat. 1031.

¹⁹ Handed to the Chief of the Division of Chinese Affairs (Sproue) by the First Secretary of the British Embassy (Ford) on March 21.

The Foreign Office are aware that to refuse to accord any sort of recognition to a government which in fact effectively controls a large proportion of territory is not only objectionable on legal grounds but leads to grave practical difficulties. It would be open to His Majesty's Government to recognise the Chinese Communist Government as at any rate being a *de facto* government of that part of China which it controls, and they could of course, at the same time, continue to recognise the Central Government as being the *de jure* government of the whole of China. By so doing His Majesty's Government would be adopting an attitude similar to that which they adopted towards General Franco during the Spanish Civil War.

In spite of these arguments the Foreign Office feel that some time must still elapse before His Majesty's Government will be in a position to consider according any form of recognition to the Communists. The reasons of the Foreign Office for considering that some delay is both inevitable and desirable are:

(a) The North China Peoples Government must be regarded as an interim regime which is now in process of converting itself into something else. It is not yet known whether it will prove possible to arrange some form of coalition between the present Central Government and the Communists, nor have the Communists yet decided on their capital. The frontiers of Communist-administered territory are still fluid, and it is impossible to foresee whether there will be a period of stalemate, as in the Spanish Civil War, when the two opposing factions will each be in control of a relatively clearly defined area.

(b) On general grounds, the Foreign Office do not wish to appear unduly precipitate in recognising the Communist regime.

(c) The Foreign Office are anxious to proceed to recognition only on the basis of full consultation with the other powers concerned.

The observations of the State Department on the foregoing would be appreciated.²⁰

[WASHINGTON,] 19 March 1949.

893.01/4-2949 : Telegram

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

NANKING, April 29, 1949—3 p. m.

[Received April 30—1:49 a. m.]

900. I venture to make suggestion re question of giving recognition to prospective new government of China. Its leaders are now in arrogant mood and already implying they will only recognize other

²⁰ On March 23, with the concurrence of the Director of the Office of Far Eastern Affairs, Mr. Sprouse informed Mr. Ford of "our general agreement with British views on this subject".

countries on certain terms dictated by themselves. Worthwhile to anticipate this issue by informing them when time seems suitable that it is they who are on trial rather than other nations with well established tradition and accepted international standards. My proposal centers around two points:

(1) As many nations as possible should agree to joint action. This solidarity will be disconcerting to CCP leaders. Not only are they steeped in Marxist dogma of inevitable conflict among capitalist governments, but this is reinforced by classical Chinese dictum of playing off one barbarian horde against another. Members of North Atlantic Pact²¹ and others in (British) Commonwealth, Latin American countries and those around Eastern Mediterranean, might be among those included. China would then find herself ranged with Soviet Union and satellites in world opinion. However blatant Communist propaganda may be in this allegiance, it will not be popular among other Chinese. Nor will it be lost upon them that America still has many friends despite incessant Sovietized abuse.

(2) United Nations might possibly be asked to scrutinize with same care as new applicants, those members states whose governments undergo radical change as result military force, for purpose assuring its intention to maintain basic freedoms and human rights. Despite employment of clichés about liberation, new democracy, truly people's government, etc., interpretation of these terms by United Nations as applied to CCP general practice and openly acknowledged doctrines might be effectively publicized on this world forum. Facts can be supplied by our Embassy and elsewhere to prove that thus far CCP is following totalitarian pattern. To have this demonstrated by those who are not intimidated by their terroristic devices nor gullible when listening to their assertions will be formidable weapon for use Asia. It can easily be shown that—while giving commendation to their genuine social reforms—CCP political outlook is in judgment of freedom loving, forward looking nations not New Democracy but last form of Fascist tyranny.

Most important feature to insist upon among human rights—and the one to which CCP would be least willing to assent—might well be freedom of press and of publication. Guarantees would have to be carefully implemented. When CCP will attempt to arouse nationalistic resentment for interference in China's internal affairs it can be urged that no nation can any longer live unto itself, least of all one that is openly advocating world-revolt plan and forcing peaceful nations to unite in self-protection. In short CCP members need to

²¹ Signed at Washington, April 4, 1949; for text, see Department of State Treaties and Other International Acts Series No. 1964, or 63 Stat. (pt. 2) 2241.

be educated, they and their fellow-countrymen as well as other Asiatics. CCP leaders, while extremely intelligent, probably see world—especially US—largely through a murky haze of own self-indoctrination.

Sent Department, repeated OffEmb ²² Canton 332.

STUART

893.01/4-3049 : Telegram

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

SHANGHAI, April 30, 1949—9 p. m.

[Received 10:42 p. m.]

1456. News item that British Foreign Office spokesman plans establish "friendly relations" with Chinese Communist Government lends point, I believe, to mytel 1389, April 27, 11 a.m.²³

CABOT

711.93/5-349 : Telegram

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

NANKING, May 3, 1949—2 p. m.

[Received 4:51 a. m.]

921. Chinese Communists have lost no opportunities in emphasizing lack of recognition and official relations between USA and themselves. This is by now hackneyed excuse given for treatment as private persons our consular officers North China. While to date they have been consistently vague in what there is for us to recognize, we may expect concrete developments in formation of government of national character as authority territory National Government diminishes. There is strong feeling arrogance manifested CCP attitude result easy military conquest which contribute to their belief that it is established nations of world which are on trial rather than Communist China in upcoming question recognition. (See my 900, April 29, repeated Canton 32 [332]). I am convinced our tactics should therefore be one of reserve, waiting for new regime to make first approach. We can afford to wait. For tactical reasons I would consider it unwise for us to initiate any move toward recognition new national regime. On this point I agree with Clark²⁴ rather than Cabot (see

²² Office of the Embassy in China.

²³ *Post*, p. 1251.

²⁴ Lewis Clark, Minister-Counselor of Embassy in China at Canton.

Shanghai's 1389, April 27 to Department,²⁵ repeated Nanking 798, Canton 346, and Cantel 296, April 29,²⁶ repeated Shanghai 186).

To be effective we must have support of at least North Atlantic community. Governments represented therein, and particularly those of Commonwealth, should not be permitted to jump the gun for temporary apparent commercial political gains which CCP may well attempt to dangle. Chinese have long successfully employed through weakness policy of playing off one foreign power against another. It cannot be to advantage of any Western states to permit Chinese Communists succeed similar tactics against US now. I shall be glad to take whatever steps here Department may consider appropriate but I feel effective persuasion regarding advantages strict united front vis-à-vis new Chinese regime can best be made in Washington, London, Paris, Rome, etc.

Department please pass this telegram to North Atlantic community capitals in its discretion.²⁷

Sent Department, repeated OffEmb Canton 341, Shanghai 490.

STUART

893.01/5-449 : Telegram

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

NANKING, May 4, 1949—4 p. m.

[Received May 5—2:17 a. m.]

936. When I called on British Ambassador yesterday (my first outing in one week²⁸) he discussed desirability extending *de facto* recognition national basis to Communist Government promptly it is established. He appears to have received some policy guidance this respect from his FonOff and suggested calling meeting chiefs North Atlantic community to discuss. As Department would have seen from mytel 921, May 3 to Department, repeated Shanghai 490, Canton 341, I am strongly inclined against making any first move in establishing relations national Communist regime. I feel we should be in no hurry to extend any kind of recognition and fear premature decisions on North Atlantic community basis may prejudice flexible policy, freedom of action of us all. Furthermore I do not understand how *de facto* recognition on national basis could be extended to new regime without withdrawing recognition from Government [in

²⁵ *Post*, p. 1251.

²⁶ *Post*, p. 934.

²⁷ Repeated in a circular telegram of May 3, 5 a.m., to Embassies in the United Kingdom, France, Italy, Belgium, the Netherlands, Canada, and Australia.

²⁸ For the Embassy's situation following Nanking's occupation by Communists, see volume VIII.

Canton which I for one am not prepared to recommend for immediate future.

I would be grateful Department guidance before next meeting Little Diplomatic Corps.

Sent Department, repeated OffEmb Canton 353, Shanghai 501, passed London 5.

STUART

893.01/5-549 : Telegram

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

NANKING, May 5, 1949—5 p. m.

[Received May 6—4:34 a. m.]

943. My French and British colleagues²⁹ called on me yesterday to discuss question of “*de facto* recognition” which will arise on formation Central Government, provisional or otherwise, in Communist-occupied China. British Ambassador, who prompted meeting, presented informal memo as basis for discussion. (See Embtel 936 to Dept May 4, repeated Canton 353, Shanghai 501, London 5.) He feels that early consultation among governments of North Atlantic group desirable in order that there may be common action this problem. At same time he feels it desirable we not appear to be acting as a bloc.

Stevenson’s memo contained following considerations:

- (1) Progressive disintegration Kmt³⁰ Government.
- (2) Unless and until *de facto* recognition granted, practical difficulty of arranging satisfactory protection our interests on basis consular relations will continue.
- (3) Desirability of following Spanish Civil War precedent in appointing diplomatic agents on grant of *de facto* recognition.
- (4) Withdrawal of Ambassadors from Nanking in advance of *de facto* recognition and before appointment of diplomatic agents would leave only diplomatic representation with “crumbling Kmt” which might have adverse repercussions on nationals, interests Communist-occupied territory. I indicated general approval points 1 and 2 but said I was doubtful as to validity of 3rd and 4th considerations.

I said I did not think we should be under illusion that Communists would be influenced by fact of our having remained Nanking; that their attitude, policy toward us was already established and that they would not be satisfied with half measures. I continued that we should not sacrifice possible long range advantages for immediate and relatively minor ones; that we should not appear anxious to make first

²⁹ Jacques Meyrier and Sir Ralph Stevenson.

³⁰ Kuomintang (Nationalist Party).

move or take initiative in any kind of recognition to newcomers. Stevenson indicated agreement with my views.

I should be grateful for Department's guidance for future discussions this subject.

Sent Department, repeated Shanghai 508, OffEmb Canton 359, London 6.

STUART

893.01/5-649 : Telegram

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

ROME, May 6, 1949—2 p. m.

[Received 7:58 p. m.]

1335. Depcirtel May 3, 5 a. m.³¹ SYG³² Foreign Office informs us instructions have been sent Italian Ambassador, Nanking, through British radio that he act in concert with his American, British and French colleagues. Zoppi said Italian Government wished to maintain united front with US re new Chinese regime and he expressed hope we would keep Italian Government fully advised our views.

Sent Department 1335, repeated Nanking 4.

DUNN

893.01/5-649 : Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Officers*³³

WASHINGTON, May 6, 1949—5 p. m.

ReDepcirtel May 3 repeating Nanking's 921, May 3. Dept supports general position outlined reftel and believes question might profitably be discussed in capitals concerned Western powers. You are therefore authorized discuss this matter with FonMin of Govt to which accredited along lines suggested reftel emphasizing (1) disadvantages of initiating any moves toward recognition or giving impression through statements officials that any approach by Commies seeking recognition wld be welcomed and (2) desirability of concerned Western powers adopting common front this regard. Report FonMin's reactions.

ACHESON

³¹ See footnote 27, p. 15.

³² Secretary General, Vittorio Zoppi.

³³ Sent to Embassies at London, Paris, Rome, Brussels, The Hague, Ottawa, Lisbon, and Canberra; repeated to Embassy at Nanking, Embassy Office at Canton, and Consulate General at Shanghai.

893.01/5-949 : Telegram

The Ambassador in the Netherlands (Baruch) to the Secretary of State

THE HAGUE, May 9, 1949—3 p. m.

[Received May 9—2:55 p. m.]

390. Discussed Foreign Minister Depcirtel May 8 [6], 5 p. m. anent China and on both points 1 and 2, he expressed entire cooperation and agreement.

BARUCH

893.01/5-949 : Airgram

The Ambassador in Canada (Steinhardt) to the Secretary of State

OTTAWA, May 9, 1949.

[Received May 11—5:03 p. m.]

A-108. Reference Department's circular telegrams dated May 3, 5:00 a. m.³⁴ and May 6, 5:00 p. m. conveying Department's attitude toward dealings with Chinese Communists.

Department of External Affairs has been informed of the gist of referenced telegrams and policy recommended therein was enthusiastically commended.

Officials here concerned with Chinese affairs feel very strongly that western states should consult together before making any decision regarding recognition or other important matters. Canadians are also anxious to maintain strictly united front regarding position towards possible new Chinese regime.

They appreciate pains taken by Department to keep Canadian Embassy in Washington informed on Chinese developments, but feel inclusion of Canadians in consultations in Washington regarding Chinese problems before decisions are reached would be mutually advantageous.

Canadian officials give the impression of feeling that they have not been informed or consulted about United States decisions regarding China in some important instances, particularly in respect to Department's authorization for Ambassador Stuart's return to Washington for consultation.³⁵

STEINHARDT

³⁴ See footnote 27, p. 15.

³⁵ See telegram No. 510, April 22, 7 p. m., to the Ambassador in China, vol. VIII, "Successive moves of the Embassy office in China in efforts . . .".

893.01/5-1049 : Telegram

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

PARIS, May 10, 1949—1 p. m.

[Received 5:07 p. m.]

1887. Schuman³⁶ told me last night that he agrees with Department's position with regard to recognizing Chinese Communist Government as set forth in Deptcirtel May 6, 3 a. m. [5 p. m.].

CAFFERY

893.01/5-1049 : Telegram

The Chargé in Australia (Foster) to the Secretary of State

CANBERRA, May 10, 1949—4 p. m.

[Received May 11—3 a. m.]

99. Saw Burton³⁷ today and urged position outlined Depcirtel May 6, 5 p. m. Burton said Australia planned continue its Embassy in Nanking and had no intention at present recognizing Communists in China. Added however that circumstances might change and that Australia could give no commitments for future.

FOSTER

893.01/5-1049 : Telegram

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

NANKING, May 10, 1949—11 p. m.

[Received May 10—4:20 a. m.]

979. My British colleague has given me copy of his most recent telegram May 5, on "*de facto* recognition" of a Communist National Government of China. He reports that he has consulted all his colleagues in North Atlantic group; that I was the only partial dissenter on two points (see Embtel 943, May 5 to Department, repeated Embassy Canton 359, Shanghai 508). He explained my position as anxiety to do nothing at this stage which might prejudice formal recognition on *de jure* basis or weaken position of democratic powers seeking to secure liberalization of Chinese Communist regime. Stevenson's telegram continued that following points emerged from discussions with his colleagues:

(1) Unanimous opinion, including Commonwealth, that we should let Communists take first step by informing Diplomatic Corps of

³⁶ Robert Schuman, French Minister for Foreign Affairs.

³⁷ John W. Burton, Secretary of the Australian Department of External Affairs.

formation of central government. Should however this fact take form of public announcements rather than communications to other powers an impasse might result.

(2) Communists may take position not satisfied anything short of formal recognition on *de jure* basis.

(3) If diplomatic agents were appointed by powers establishing relations with *de facto* regime Communists might ask for reciprocal rights of appointment.

✓(4) Unanimous agreement for united front but avoid publicity indicating we are "ganging-up" on new regime.

(5) In any negotiations only form of pressure would be threat to break off and withdraw Ambassadors for consultation.

According to Stevenson's telegram, French Ambassador emphasizes caution in dealings with Communists which might discourage resistance by Nationals in southwest China. Italian Ambassador warned against taking any action which would hasten disintegration of Kmt with view to keeping UN membership out of Communist hands long as possible. Netherlands Ambassador emphasizes value of continued presence Ambassadors in Nanking.

I told Stevenson I was in general agreement with his report. I shall make more specific remarks for Department's benefit in subsequent telegram.

Department pass capitals Western Powers at its discretion.

Sent Department 979, repeated OffEmb Canton 389, Shanghai 542.

STUART

893.01/5-1149 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, May 11, 1949—6 p. m.

[Received 7:02 p.m.]

1839. Depcirtel May 6, 5 p. m., re recognition Chinese Communist Government. Holmes³⁸ presented memo based on Nanking's 921³⁹ to Bevin this morning. Bevin remarked in jocular mood "Do you want us to go as slow on this as we have in case of Israel?" Stated matter would be given full consideration.

DOUGLAS

³⁸ Julius C. Holmes, Minister-Counselor of Embassy.

³⁹ May 3, p. 14.

893.01/5-1249 : Telegram

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

PARIS, May 12, 1949—5 p. m.

[Received May 12—3:43 p.m.]

1941. Mytel 1887, May 10. Foreign Office note dated May 11 just received whose pertinent paragraphs follow in translation:

“French Government believes it is indeed desirable that governments of Atlantic Community and British Commonwealth adopt common policy on this question.

“French Government intends take advantage Secretary State’s forthcoming visit Paris to study with him new situation created by collapse of National Chinese Government and to inform him of considerations to which this situation gives rise since it has special aspect for France because of common frontier between Indochina and China.”

CAFFERY

893.01/5-1249 : Telegram

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

PARIS, May 12, 1949—7 p. m.

[Received 9:52 p. m.]

1951. We asked Baeyens⁴⁰ whether Foreign Office note transmitted Embtel 1941 meant that French intend raise with Secretary whole question of defense SEA⁴¹ against Chinese Communists, French military situation in Indochina, our attitude toward Bao Dai⁴² regime, etc. After consulting Parodi,⁴³ he has replied in negative saying that present French plans are to confine discussions to eventual recognition Chinese Communist regime in China with particular reference to special French problems arising out of common frontier.

CAFFERY

893.01/5-549 : Telegram

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

WASHINGTON, May 13, 1949—8 p. m.

589. Reurtels 936, May 4, and 943, May 5 re question recognition, foll info for your guidance:

⁴⁰ Jacques Baeyens, Head of the Asia-Oceania Section of the French Foreign Office.

⁴¹ Southeast Asia.

⁴² Head of French Indochina, former Emperor of Annam.

⁴³ Alexandre Parodi, Secretary General of the French Foreign Office.

1. In accordance general approved position of Dept, recognition any new govt shld be based on foll three factors:

- a. *de facto* control of territory and administrative machinery of State, including maintenance public order;
- b. ability and willingness of govt to discharge its internatl obligations;
- c. general acquiescence of people of country in govt in power.

Furthermore, recognition by US shld not be withheld as political weapon except in extreme cases when US natl interest served thereby.

2. Re question recognition Commies as in *de facto* as opposed *de jure* control, foll considerations appear pertinent:

a. US Govt on recent occasion (Israel) recognized provisional govt as *de facto* authority and exchanged representatives prior to *de jure* recognition.⁴⁴

b. Recognition of *de facto* authority can legally be extended without withdrawing recognition from *de jure* govt. (Oppenheim's *Internatl Law*, Vol. I, 7th Edition, pp. 145-146 par 75g)

c. Granting recognition *de facto* authority Commie regime would politically encourage Commies and discourage Natl Govt.

d. When Phibun Govt succeeded Khuang Govt in Siam, we asked and obtained assurances of intentions fulfill internatl obligations and accordingly did not withdraw recognition.⁴⁵ US has withheld recognition from Albania in view its refusal give similar assurances.

3. In discussing question possible recognition *de facto* authority Commie regime with diplomatic colleagues, foll questions shld be considered and Dept wld appreciate ur comments thereon:

a. Wld grant this recognition lead Commies to adopt more correct and reasonable attitude toward Amer official personnel and Amer rights and property generally? Or would they become more haughty and arbitrary?

b. Does this recognition offer best hope for protecting Amer interests?

c. Having recd recognition *de facto* authority wld Commies soon demand recognition *de jure* control which US might be unprepared grant in absence evidence of sense internatl responsibility?

4. Re Brit Amb's point 3 (urtel 943, May 5), during Span Civil War Brit made arrangements with insurgents in April 1938 for exchange of agents possessing quasi-official character while at same time retaining diplomatic relations with Span Govt. Brit Govt made it clear such concessions involved no recognition Franco administration. US with-

⁴⁴ See President Truman's statement on May 14, 1948, Department of State *Bulletin*, May 23, 1948, p. 673.

⁴⁵ See *ibid.*, March 14, 1948, p. 360; and May 23, 1948, p. 686.

held recognition Span Nationalist Govt until April 1939⁴⁶ by which time all semblance Loyalist Govt had disappeared.

5. Replies recd so far in response Depcirtel May 6 as follows: Paris and The Hague indicate full agreement and cooperation; Rome expresses desire maintain common front and states Ital Amb will act in concert with Amer, Brit and Fr colleagues; Ottawa enthusiastically commends policy recommended; Canberra states no intention at present recognizing Commies but adds circumstances might change and could give no commitments for future; London noncommittal but states matter will be given full consideration.

6. Reurtel 927, May 4,⁴⁷ Dept spokesmen have replied foll sense to questions re US relations with Commies: Commies have not as yet established "central govt" in any sense of word and are not seeking recognition. Natl Govt only Govt in China which has claim recognition. Consular establishments Commie controlled areas remain open and functioning where possible as repeatedly indicated. As functioning bodies they are on practical basis handling purely local problems with local authorities. This in no sense implies recognition or approval actions these local authorities. Facing facts it only natural expect these relationships shld be as amicable as conditions permit.

7. Dept continues of opinion we shld strongly oppose hasty recognition Commies either as *de facto* or *de jure* authority by any power and shld continue our efforts obtain full agreement concerned Fon powers (particularly Brit) to desirability presenting common front this question.

ACHESON

893.01/5-1549: Telegram

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

NANKING, May 15, 1949—8 a. m.

[Received 11:18 p. m.]

1025. With reference paragraph 5, Embtel 1018 [1019] of May 13,⁴⁸ repeated Shanghai 568, Canton 411, we suggest that when time finally does come to accord *de jure* recognition to Chinese Communists, Department may wish try make such recognition contingent upon Com-

⁴⁶ For recognition of the Spanish Nationalist Government, see telegrams from the Secretary of State to the Spanish Minister for Foreign Affairs, April 1 and 3, 1939, *Foreign Relations*, 1939, vol. II, pp. 771 and 772, respectively.

⁴⁷ Not printed.

⁴⁸ Vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter I.

munists signing detailed agreement along lines 1933 Litvinov Agreement with USSR.⁴⁹

Some advantages which would accrue from this are: By pinning Communists down to certain specific minimal obligations, it would reduce their scope to misinterpret and quibble about generalities in manner characteristic of both Communists and Chinese. It would impress them that we are not intimidated by their truculence and that they and not we have most to gain by establishment of diplomatic relations. It would dovetail with Embassy recommendation (Embtel 921, May 3) that we do not take first step toward recognition. If agreement is sufficiently detailed, it would give US convenient and specific references on which to hang many protests against violations American rights which we must expect in Communist China.

Sent Department 1025, repeated Shanghai 574, OffEmb Canton 416.

STUART

893.01/5-1749 : Telegram

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

NANKING, May 17, 1949—1 p. m.

[Received May 17—7:51 a. m.]

1043. We have had several recent indications that our colleagues are, under present inactivity, ill-defined status, becoming restless and would welcome opportunity to recognize Commie central regime. Rumors reach us that Indian Govt intends to recognize Commie Govt fairly promptly after "decent interval". French, we are informed, feel that their interests in Indochina would be better protected if they recognized Commie regime promptly, rather than otherwise. My Canadian and Netherlands colleagues have both expressed to me intention or desire to remain in Nanking and become accredited to new central government as soon as that is feasible. Certainly if chiefs of mission remain Nanking, there will be every personal reason to regularize their status through early recognition. I am afraid that personal considerations are not entirely absent in recommendations which some chiefs of mission are favoring on China policy. I was gratified to see instructions contained in Dept's circular May 6 and feel I must emphasize again desirability of North Atlantic and Commonwealth group maintaining united front and forcing Commie central government, when it is established, to take initiative on recognition. I cannot but feel that it is in long-range interest of us all to require new regime to work for international recognition including recognition its international obligations and subscription to freedoms and liberties

⁴⁹ See *Foreign Relations*, 1933, vol. II, pp. 804-814.

in spirit of UN Charter. ^{*} (Recognition will be our only lever.) Once line is broken, once we begin according recognition we will have released what little bargaining power now is in our hands. Perhaps methods of persuasion other than purely Chinese considerations will occur to Dept. It is particularly important that London and Washington, and consequently Stevenson and I, have similar instructions and act in simultaneous accord. Some of smaller countries have intimated that they would be greatly embarrassed if Stevenson and I followed different courses with respect to withdrawal from Nanking or recognition. Deptel 589, May 13, repeated Shanghai 932, Canton 174, just received and will receive comment in separate telegram.

Sent Department 1043, repeated Canton 429, Shanghai 590.

STUART

893.01/5-1749 : Telegram

The Ambassador in Portugal (MacVeagh) to the Secretary of State

LISBON, May 17, 1949—4 p. m.
[Received May 17—12:55 p. m.]

180. Have discussed this matter with Foreign Minister (Depcirtel May 6, 5 p. m.) who said he agrees thoroughly and emphatically with Department's views. Added he feels it still possible to halt Communist aggression Asia if Western powers take common stand but urged initiative must come from US in view British tendency to indecision and "need of being pushed." Complained his Government has informed London that it will defend Macau to maximum ability if British similarly determined re Hong Kong but no answer this connection received.

MACVEAGH

893.01/5-1949 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, May 19, 1949—4 p. m.
[Received 5:19 p. m.]

1972. Depcirtel May 6, 5 p. m. re recognition of possible Chinese Communist Government.

1. Foreign Office has today handed to Embassy officer following *aide-mémoire* on subject:

"Note has been taken of the US Embassy's *aide-mémoire* of the 11 May.⁵⁰

⁵⁰ See telegram No. 1839, May 11, 6 p. m., p. 20.

A study of the legal issues involved in the recognition or non-recognition of a Communist government of China was forwarded to Washington in mid-March for communication to the Department of State.⁵¹ The considerations then put forward hold good at the present time.

On the practical problem the Foreign Office fully agree that the question of formally recognizing the Communists will only arise after the formation of a government claiming to be of national character. It is at present impossible to foresee when this will be, but in the meantime there would seem to be every advantage in maintaining, as State Department suggests, a reserved attitude towards the new regime and in preserving a common front among the Western and Atlantic Powers.

With this end in view full and frequent consultation will be maintained with these powers so that an urgent decision can be reached in common as soon as the Communists show their hand."

2. Dening⁵² yesterday informed Dickover⁵³ that other Western and Atlantic Powers would be fully informed of UK position.

[DOUGLAS]

893.01/5-1949 : Telegram

The Ambassador in Portugal (MacVeagh) to the Secretary of State

LISBON, May 19, 1949—6 p. m.
[Received May 19—3:40 p. m.]

187. In conversation with Foreign Minister yesterday, I again referred to possibility of Western Powers taking individual decisions re Chinese Communist recognition (infotel May 18, 5 a. m.⁵⁴), and while stating no approach yet reported by Portuguese envoy Nanking, Foreign Minister reiterated his concurrence with view concerted attitude imperative and stated in strongest terms that Portuguese Government will take no action without prior consideration, specifically mentioning US-UK in this connection.

MACVEAGH

893.01/5-2049 : Telegram

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

PARIS, May 20, 1949—8 p. m.
[Received 11:47 p. m.]

2084. ReDepintel May 18, 5 a. m.⁵⁴ Baeyens tells us that Meyrier's and FonOff thinking run along following line: Western nations

⁵¹ March 19, p. 11.

⁵² Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs (Far East).

⁵³ Erle R. Dickover, Counselor of Embassy in the United Kingdom.

⁵⁴ Not printed.

should not delay recognition Chinese Communist regime once it has taken initiative obtain such recognition and has agreed assume treaty commitments its predecessor. In FonOff's view, acceptance existing Franco-Chinese treaties by CP regime would justify immediate recognition. Baeyens added that some pressure is evident from Indo-China to delay recognition out of fear of local repercussions. In addition to general effect on dissident and fence-sitting elements afforded by gesture which would undoubtedly be exploited as French abasement before rising CP tide, Baeyens said local people feared activities of Communist Chinese Consuls. Baeyens pooh-pooed these fears and intends resist this pressure.

BRUCE

740.00119 Council/5-2349 : Telegram

*The Secretary of State*⁵⁵ *to the Acting Secretary of State*

[Extracts]

PARIS, May 23, 1949—10 p. m.
[Received May 24—1:20 p. m.]

Delsec 1782. [For] President and Acting Secretary. As appears factual report today's CFM meeting, Vishinsky's⁵⁶ attitude throughout was most conciliatory and pleasant. . . .

Vishinsky's emphasis on previous Soviet position that Japanese peace treaty should be dealt with through CFM seems to reveal natural interest in Far Eastern developments and confidence concerning establishment Chinese Communist Government. Vishinsky's remarks clearly imply desire to secure invitation to Chinese Govt to participate, thus involving recognition Communist regime or putting western powers on spot in refusing recognition.

ACHESON

893.01/5-2649 : Telegram

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

NANKING, May 26, 1949—1 p. m.
[Received May 27—10:03 p. m.]

1118. I have discussed separately with my colleagues of North Atlantic community various reactions of their respective Foreign Offices to US position on recognition China Communist government

⁵⁵ The Secretary was in Paris attending a meeting of the Council of Foreign Ministers (CFM).

⁵⁶ A. Ya. Vyshinsky, Soviet Minister for Foreign Affairs.

(Deptel 626, May 20, repeated Canton Telcan 218⁵⁸). Generally they were highly pleased with attitudes their Government. Australian Ambassador assured me his Government would keep in line with rest of us; that he was confident that his recommendations would be followed in Canberra. He added that Prime Minister⁵⁹ was always overcautious when Evatt⁶⁰ was out of country.

British Ambassador, with whom I discussed position of various members of Commonwealth, assured me categorically that Nehru would not follow independent policy but would cooperate other members Commonwealth regarding New China recognition. He was also positive in assertions that local Indian Ambassador⁶¹ concurred in united front approach to problem (see Embtel 1043, to Department May 17, repeated Canton 429).

Sent Department 1118; repeated OffEmb Canton 466; repeated Canberra 1; New Delhi 4.

STUART

S93.01/5-2649 : Telegram

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

CANTON, May 26, 1949—4 p. m.

[Received May 27—7:26 a. m.]

Cantel 478. Agree Hague Foreign Office [that] Ambassadors Nanking unlikely agree on common front, Depintel May 24, 1 a. m.,⁵⁸ regarding recognition Communist regime China, and gather from public statements Department canvassing problem other interested governments. If French Foreign Office contemplated recognition Communist acceptance French-Chinese treaties only, suggest desirability approach France and point out that more is involved than mere French-Chinese relations. With all we have been doing for France, she should be willing consider this matter from other than purely selfish motives.

Sent Department, repeated Nanking 329.

CLARK

⁵⁸ Not printed.

⁵⁹ Joseph B. Chifley.

⁶⁰ Herbert V. Evatt, Australian Deputy Prime Minister and Minister of External Affairs.

⁶¹ K. M. Panikkar.

740.00119 Council/5-2649 : Telegram

The Secretary of State to the Acting Secretary of State

PARIS, May 26, 1949—5 p. m.
[Received May 26—1:29 p. m.]

Actel 13. [For] Humelsine⁶² from Battle.⁶³ French Foreign Office indicated to Embassy last week that Schuman⁶⁴ would like discuss with Sec at some point question recognition Chinese Commies. In light Vishinsky proposal Monday CFM and current developments China, let us have Dept. recommendation. In case you recommend interview forward any material not in problem summary 61 or available to Embassy advisers.⁶⁵ [Battle.]

ACHESON

893.01/5-2649 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, May 26, 1949—5 p. m.
[Received May 26—2:55 p. m.]

600. During my conversation with Bajpai⁶⁶ May 25 we touched on developments in China. I said that it seemed to me important that great powers, including India, should consult with one another before taking any steps which might properly be interpreted as *de facto* or *de jure* recognition Chinese Communist Government. It would be against interests of all concerned, if as result of one great power pushing ahead of others in matter of recognition, Chinese Communist regime could indulge in game of playing one power off against another.

Bajpai said he thoroughly agreed and had recently sent instruction Indian Embassy to keep in close touch on all matters affecting relations with Communist regime with US and UK Embassies.

Sent Department 600, repeated Nanking.

HENDERSON

⁶² Carlisle H. Humelsine, Director of the Executive Secretariat of the Office of the Secretary.

⁶³ Lucius D. Battle, of the Executive Secretariat staff.

⁶⁴ Robert Schuman, French Minister for Foreign Affairs.

⁶⁵ In reply, Mr. Humelsine reported in telegram Telac No. 26, May 28, the gist of the replies to Department's circular telegram of May 6, p. 17.

⁶⁶ Sir Girja Shankar Bajpai, Secretary General of the Indian Ministry of External Affairs.

893.01/5-2749: Telegram

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

NANKING, May 27, 1949—1 p. m.

[Received May 27—7:14 a. m.]

1123. Deptel 589, May 13, paragraph 1. Accords Embassy's understanding.

Paragraph 2-b. Embassy without access Oppenheim and unaware US precedents this point, unless perhaps in case where new state created in portion of territory formerly controlled by *de jure* government, latter retaining sovereignty over remainder. Is British action Spain example? While it may have offered political expediency, it seems to us poor precedent from legal standpoint (see *American Journal of International Law*, section 2, 1939, volume 33, page 689).

Paragraph 2-c. Embassy concurs. Believed *de facto* recognition if accepted would be advertised by Communist-controlled press and radio as equivalent *de jure* and consequently so regarded by public. This particularly true if *de facto* recognition "granted" or "extended" by any documented action authority US Government such as exchange representatives or joint note December 9, 1924 by Peking envoys quoted *Hackworth Digest*, volume 1, page 317.⁶⁸ Moreover Embassy believes extremely difficult especially for some our allies resist falling into *de jure* recognition after establishing *de facto* relations.

Paragraph 3-a. Such formal grant or extension recognition of *de facto* authority would probably lead to more correct Communist attitude but only if US action treated as tantamount *de jure* recognition. If on other hand we insisted on emphasizing informal aspects of recognition, we believe Communist would reject such arrangement altogether, insisting on whole loaf of [or] nothing.

Paragraph 3-b. Best hope protecting American interests lies in growth Communist recognition own needs for American goods and technical assistance. As these needs become more acute, Communist manners and policy toward Americans may be expected improve regardless degree progress toward *de jure* recognition. Despite racial, political and commercial hostility toward Americans, their property and business interests, Communist moving with caution and sins are to date chiefly omission not commission.

* Paragraph 3-c. See foregoing paragraph. In Embassy's view informal relations with *de facto* authority should be permitted to develop without ceremony or formal act marking their initiation. While

⁶⁸ For correspondence on the recognition of the provisional government as the "de facto" government of China, see *Foreign Relations*, 1924, vol. I, pp. 416 ff.

Communists will undoubtedly continue to say that they do not recognize us as officials because we have no formal relations, that position will in fact be correct, so far as concerns our capacity to make formally binding representations, we not being accredited to their regime. If we can continue to talk to them as we are now doing with local government Nanking, we may accomplish as much as can be expected in light of fundamentally divergent policies of CCP and USA. Informal relations established by some mark of intent rather than developed through daily contacts will, we believe, be interpreted and used by Communists as formal recognition to our own embarrassment or rejected as derogatory to Chinese national dignity.

STUART

893.01/5-2849

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 28, 1949.

Participants: Mr. B. R. Sen, Indian Minister
Mr. Joseph S. Sparks,⁶⁹ SOA
Mr. P. D. Sprouse, Chief, CA

Mr. Sen called this morning by appointment and explained that he had been instructed by the Indian Government to make inquiries regarding the recent newspaper reports that the US Government was in consultation with certain other governments with respect to the question of possible recognition of any regime the Chinese Communists might establish in China. I explained that Ambassador Stuart in Nanking had been in touch with the various chiefs of mission at Nanking on this subject and that it was generally believed desirable that a common front be maintained on the question of recognition. I added that we had been in very close consultation with the British Embassy here on the subject and that we would like to continue to keep in touch with the Indian Embassy also.

Mr. Sparks pointed out that Mr. Butterworth had sometime ago discussed this matter with Mr. Sen's predecessor and that we had noted that Ambassador Henderson at New Delhi had also discussed the matter there with the Indian Government.

Mr. Sen indicated that the Indian Government agreed that it would be desirable to maintain a common front on this question and asked that we keep in touch with them in the future on this problem.

⁶⁹ Acting Assistant Chief of the Division of South Asian Affairs.

893.01/6-149 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, June 1, 1949—3 p. m.

[Received June 1—5:43 a. m.]

1401. Information regarding adoption concerted policy concerning recognition new Chinese regime initially received Manila Embassy only through intel May 9⁷⁰ which stated instructions already issued our Ambassadors countries with Missions remaining Nanking. It appeared therefrom that Department inadvertently omitted from list Philippines which continue maintain Mission there. Accordingly Chargé soon after receipt intel orally discussed question with President Quirino and obtained his agreement adopt common front.

However, President apparently did not recall subject matter his informal approach when there came his attention press report originating Paris that US addressed notes this question list countries in which Philippines not included. Under Secretary Foreign Affairs Neri May 31 informed me that Elizalde⁷¹ had been instructed report whether US intended Philippines participate common front and that he reported basis conversation Department that Philippines included. As Neri gave impression being piqued that Philippines had not been more formally and fully brought in on the matter, I pointed out that our approach had early been made President Quirino and expressed belief press reports of despatch notes other interested powers probably incorrect. Under Secretary agreed adding that in any case Philippine concurs adoption common approach problem.

COWEN

893.01/6-149 : Telegram

The Chargé in Australia (Foster) to the Secretary of State

CANBERRA, June 1, 1949—4 p. m.

[Received June 1—9:46 a. m.]

111. Burton and McIntyre of External Affairs asked me informally today whether, since my approach to them as reported Embtel 99, May 10, I had had any further word from Washington concerning US position on recognition Communist regime in China. I referred Secretary Acheson's recent public statement.⁷² They said feeling was growing in Australian Government that regime is in China to stay, that West might as well face fact, and that continued refusal of

⁷⁰ Not printed.⁷¹ Joaquin M. Elizalde, Philippine Ambassador in the United States.⁷² On May 18, 1949, the Secretary of State at his press conference stated that the United States was studying the Chinese situation in consultation with other governments (Department of State Verbatim Reports of Press Conferences).

recognition would destroy any chance of cooperation, however small, from regime and would drive latter fully into arms of Moscow. They added that, while Australia appreciated US belief that Chinese Com-mies are in closest dependent relationship with Moscow, Australian Government remains to be convinced of this. They added that Australia has suggested to UK that on economic and security grounds UK should consider leading movement for recognition, failing which Hong Kong may well be lost.

Please instruct my reply.

FOSTER

893.01/6-149 : Telegram

The Ambassador in Burma (Huddle) to the Secretary of State

RANGOON, June 1, 1949—7 p. m.

[Received June 1—2:36 p. m.]

211. Foreign Minister spoke to me on subject Embtel 209, June 1,⁷³ and asked me to communicate request his Government to Department. I said I would gladly do so but told him I was not officially informed as to details of Department's proposals.

It would be wise I think to include Burma in any conversations on subject China, if this can consistently be done. Reuter's report lists SEA⁷⁴ Commonwealth States as having been consulted by Department. Burma is not in Commonwealth but probably feels a little hurt because not approached. Burma is vitally interested in China developments and having in mind significant if opportunistic change in policies now contemplated by GOB⁷⁵ (see mytels 210, June 1; 205, June 1⁷⁶) it may be possible to associate Burma with anti-Communist nucleus by sympathetic attention and consideration at present stage. Minister Maung's request seems to indicate such an opportunity. Observe implication by Foreign Office use phrase that Burma may now wish to be considered "like minded" nation in our circle.

Pouched Bangkok, Colombo, Karachi, New Delhi.

HUDDLE

Editorial Note

At his press conference on June 1 Acting Secretary of State Webb was asked by a reporter to comment on certain press association des-

⁷³ Not printed; it reported a note from the Burmese Foreign Office referring to a report that the United States had proposed that "like-minded" nations should join in common policy toward Communists in China and requesting that Burma also be consulted on this issue.

⁷⁴ Southeast Asia.

⁷⁵ Government of Burma.

⁷⁶ Neither printed.

patches saying that anonymous diplomatic sources in Nanking predicted recognition of "a Communist Government of China before too long." The newspaperman pointed out that the story mentioned India, Great Britain, and others, but not the United States, as leaning toward recognition.

Acting Secretary Webb replied: "I would like to say that there is no Communist Government in China; that it will apparently be some time before such a government can be established and I would prefer not to comment on what the attitude of this government would be at some future time and under conditions which we cannot foresee at this time. I would like to say that we will certainly be giving all aspects of the China situation the most careful study." (Department of State Verbatim Reports of Press Conferences.)

893.01/6-149 : Telegram

The Acting Secretary of State to the Ambassador in Burma (Huddle)

WASHINGTON, June 4, 1949—1 p. m.

123. You may inform FonMin Dept welcomes GOB interest participating consultations (Embtels 209⁷⁷ and 211 June 1) of Govts watching Chi situation. We believe desirable for interested Govts keep in close touch. Chiefs of Missions in Nanking have been discussing matter of establishing common front toward relations with Commies and Dept will invite Burm Amb Washington to come in for exchange of views this situation. It is understood Burm Amb Nanking has already participated some of these talks, one result of which was decision Chiefs of Mission remain Nanking but move parts their respective staffs to Canton.

You may inform FonMin that common front policy consists primarily of: One, the concerned Powers will not make overtures to Commies on subj recognition but will leave question of first approach to Commies; and two, the concerned Powers will consult among themselves before taking any action toward extending any form recognition to Chi Commie Govt which may be established.

Consultations on these matters are kept on strictly informal oral basis and talks center at Nanking. Dept will appreciate knowing whether FonMin concurs this common front policy.

WEBB

⁷⁷ See footnote 73, p. 33.

893.01/6-749 : Telegram

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

Moscow, June 7, 1949—6 p. m.

[Received June 7—2:25 p. m.]

1478. I cannot support too strongly Ambassador Stuart's convictions we should reserve recognition Chinese Communist regime as bargaining lever (Depinfotel, May 18⁷⁸). Australian attitude that refusal recognition would destroy chance cooperate and drive regime to Soviets seems unrealistic to say least (Depinfotel June 2⁷⁸). Liu Shao-chi article Cominform Journal appearing *Pravda* today should remove any lingering doubts CCP and Soviet and Soviet [*sic*] present solidarity.

We see no reason hurry recognition Communist regime. Soviet past behavior (North Korea) suggests they will take no recognition step until usual procedure convoking People's Assemblies, elections, etc., has taken place. Early recognition by West Powers would place latter in ridiculous position and result only in even more high-handed and arbitrary attitude on part Chinese Communists.

Embassy disturbed at anxiety for quick trade with Communists seemingly prevailing certain US and British circles. If assumption is correct China must eventually turn to West instead Soviets for economic aid, our only strength is withholding trade until concessions are made.

US-UK businessmen should realize necessity waiting policy and short-term sacrifices for long-range gain. At least on points recognition and trade should be clear that agreed US-British policy requiring Communists come to US first is only course to follow.

Sent Department 1478; repeated Nanking 64, Canton 30, London 141, Delhi 16, Canberra 10.

KOHLER

893.01/6-849 : Telegram

The Chargé in Australia (Foster) to the Secretary of State

CANBERRA, June 8, 1949—3 p. m.

[Received June 8—6:06 a. m.]

114. Would appreciate reply Embtel 111, June 1, especially since External Affairs might interpret my silence as indication US reconsidering policy nonrecognition Communist regime China.

FOSTER

⁷⁸ Not printed.

893.01/6-949 : Telegram

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

NANKING, June 9, 1949—8 p. m.
 [Received June 10—10:21 a. m.]

1251. Australian Ambassador here cannot believe his Govt is advocating hasty recognition Commie regime China (reDepintel June 2, 7 a. m.⁷⁹). He assures me that his Govt's policy is in line with Western Powers in leaving initiative to Commie regime and in following common procedure thereafter. Officer added, however, that he would continue to emphasize desirability of such policy in his reports to Canberra.

Sent Dept 1251, repeated Canton 518, Shanghai 672, Moscow 38, Canberra 2.

STUART

893.00B/6-1049

Memorandum of Conversation, by Mr. Wallace W. Stuart of the Division of Chinese Affairs

[WASHINGTON,] June 10, 1949.

Participants: Mr. Owen Davis, First Secretary, Australian Embassy
 Mr. Philip D. Sprouse, Chief, Division of Chinese Affairs

Mr. Wallace Stuart, Division of Chinese Affairs

Mr. Davis stated that he had called to outline informally the views of the Australian Government with respect to relations with the Chinese Communists.

The Australian Government appreciates that the Chinese Communists have as yet established no central government for China and believe that this will not occur until fall or possibly the end of the year. Nevertheless, in the opinion of the Australian Government, the Chinese Communists will establish a new government controlling substantially all of the country. This is a fact which must be faced.

The usual satellite pattern does not fit the Chinese Communists. The Australian Government is not convinced of their dependent relationship with Moscow. There are many factors in this situation which could make for Titoism.⁸⁰ The Australian Government believes that to close the door either with respect to recognition or to economic cooperation would drive the Chinese Communists into closer relation-

⁷⁹ Not printed.⁸⁰ Marshal Josip Broz Tito, Premier and head of the Yugoslav Communist Party and State, broke with Moscow in June 1948.

ship with Moscow whereas they would probably be responsive to evidence on the part of the Western powers of willingness to cooperate. The Australian Government accordingly favors initiative on the part of the Western powers in bringing about such cooperation rather than a policy of letting the Chinese Communists stew in their own juice.

Mr. Sprouse stated that our view of the relationship between the Chinese Communists and Moscow differs somewhat from the Australian view. The Chinese Communists have clearly shown through all their public statements and propaganda, particularly with respect to the Cominform-Tito dispute, that they follow the Kremlin line. If the Chinese Communists evidence independence from Kremlin control, this development would probably arise from factors inherent in relations between China and the USSR rather than from actions by the Western Powers, for example, respecting recognition. The US has not embarked upon economic warfare vis-à-vis the Chinese Communists, and trade channels have not been closed. We believe that recognition may provide a lever for obtaining acceptance by any new government that may be established of China's international responsibilities. We realize that mere acceptance of its international responsibilities does not guarantee fulfillment, but if acceptance is not obtained prior to recognition we fear that it would probably be impossible to obtain even this subsequently. The value of this lever depends to a considerable degree upon common approach to the matter by countries having similar interests. We consider the question of common approach very important in order to guard against Chinese Communists' following the traditional Chinese pattern of playing one country against another to the ultimate disadvantage of all.

893.00B/6-1049

*Memorandum of Conversation, by Mr. Richard E. Usher of the
Division of South Asian Affairs*

[WASHINGTON,] June 10, 1949.

Participants: U So Nyun, Ambassador of Burma
Mr. Philip D. Sprouse, Chief, Division of Chinese
Affairs
R. E. Usher, SOA

In response to a telegram from the Ambassador at Rangoon reporting the desire of the Burmese Government to be consulted on common front policies regarding the Chinese Communists, U So Nyun was invited to come into the Department to discuss the matter.

The Ambassador called on Mr. Sprouse at 3:30 p. m. on Friday, June 10. U So Nyun, after a few introductory comments, expressed

the view that the Chinese Communists would probably "out-Tito Tito". Mr. Sprouse said that there were no signs of "Titoism" in the Chinese Communists at the present time. He discussed in this connection the unhappy condition of a number of Chinese radicals who, while strongly socialistic, were not Stalinists but who had chosen to align themselves with the Chinese Communist party in preference to the Kuomintang. As the Communist party increases its hold on China, these marginal Communists are being disregarded in the making of Communist party policies. Mr. Sprouse did agree, however, that there are potential points of friction between the Chinese Communists and USSR which might become serious if the Chinese Communists succeed in establishing a Communist Government of China. In this connection he mentioned the fact that the Russians are exerting a good deal of control over Manchuria and outer Mongolia, and went on to say that the current Russian policy is imperialistic and that this would antagonize any Chinese Government in so far as it affected Chinese territory. Mr. Sprouse said that the U.S. is often accused of being imperialistic; but we have never had any territorial designs on China and, in fact, have never even had a concession there.

U So Nyun said that he did not think the Chinese population in Burma would sympathize with the Chinese Communists, because they were mostly businessmen and independent craftsmen. Mr. Sprouse said that, while this would appear to be the logical conclusion, the Chinese Communists are actively trying to win the favor of overseas Chinese and are having some success in doing so in many areas. The remittances from overseas Chinese back to China are very important in maintaining China's balance-of-trade position and they are useful in other ways, and consequently the Chinese Communists will go a long way to accommodate the overseas Chinese communities.

U So Nyun then went on to say that while the Government of Burma is a Socialist Government, it is certainly not communistic and that foreign observers often overlook the fact, that the United Kingdom is more socialistic in its policies than the GOB.

U So Nyun then stated that he very much desired that Burma should be included in any consultation of interested governments on the formulation of common policies for dealing with Communists in China. He said that the threat of Chinese Communism was a problem of grave concern to Burma and that since they had so much at stake, being neighbors of China, he felt it was only right that the GOB should be included in any such consultations.

Mr. Sprouse then explained the common front policy in regard to the Chinese Communists. The policy consists of two points: (1) the interested powers will not make overtures to the Communists on the

subject of recognition, but will leave the question of making the first approach up to the Communists; (2) the interested powers will consult among themselves before taking any action toward extending any form of recognition to any Chinese Communist Government which may be established.

U So Nyun said that Burma wants to do whatever the United States does with respect to recognizing or not recognizing the Chinese Communists; that Burma was certainly glad to adhere to the common front policy.

Mr. Sprouse said that we appreciate very much this expression of the view of the GOB favoring adherence to the policy.

The Ambassador seemed, however, to be disappointed that the common front policy was not broader in its scope. He produced some newspaper clippings from his pocket and read certain passages stating that consultations were taking place among interested governments on policy matters of mutual interest vis-à-vis the Chinese Communists. He said these were the consultations in which Burma would like to be included. Mr. Sprouse said that those newspaper reports were merely greatly exaggerated accounts of the common front policy consultations which he had just described to the Ambassador. He stressed the fact that these consultations had taken place almost entirely in Nanking and that he understood that the Burmese Ambassador there had taken a leading part in some phases of these consultations. Mr. Sprouse went on to explain that talks such as we were now having with the Ambassador constituted the extent of the consultations which had taken place in Washington. He went on to explain that we had talked here as often as once a week with the French and British, but that the talks with these countries were limited in content to a few mutual problems which were peculiar to these countries.

U So Nyun appeared to be satisfied with this explanation, saying he is well aware of the tendency of news reports to exaggerate matters of this kind. He said that, as a matter of fact, the Siamese Ambassador⁸¹ had told him that Siam's consultations had been limited to one appointment which the Siamese Ambassador had requested. So Nyun observed that, of course, anyone is free to come in and have consultations at any time on any subject.

The Ambassador then referred to his newspaper clippings again and read further passages from which he adduced the views that the consultations mentioned were centered upon some more deeply significant question than that of recognition. He said that Burma would

⁸¹ Prince Wan Waithayakon.

be vitally interested in any talks among the nations about common defense measures against possible Chinese Communist aggression.

Mr. Sprouse stated emphatically that there had been no talks whatever on that subject.

The Ambassador thanked Mr. Sprouse and stated that he would inform his Government of this conversation.

NOTE:

On Thursday, June 16, U So Nyun called me by telephone and stated very emphatically that he would like to remind Mr. Sprouse and me of his interest in being included in any consultations which might take place in Washington regarding common policies toward the Chinese Communists. He said that he felt that Burma was entitled to be included in any such consultations because it should be entirely clear where the GOB stands on the question of Communism. I said to the Ambassador on this occasion that I could add nothing to the assurances which Mr. Sprouse had already given him regarding the nature of the consultations which were taking place and that Burma is being included in these consultations. The Ambassador indicated that he was satisfied on that issue, but he wanted me to be sure to inform him of any additional consultations which might take place. I made no direct reply to this statement.

S93.01/6-1049 : Telegram

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

WASHINGTON, June 10, 1949—5 p. m.

685. Depcirtel May 6, 3 a. m. [5 p. m.] sent to London, Paris, Rome, Brussels, The Hague, Ottawa, Lisbon, Canberra and Depcirtel June 10, 3 a. m.⁸² sent to Ankara, Athens, Bangkok, Bern, Cairo, Kabul, Manila, New Delhi, Rangoon, Rio de Janeiro, Stockholm, Tehran were for purpose apprising respective Fon Govts of informal discussions which have already taken place re question possible recognition Chi Commie Govt and inviting their comments to achieve maximum agreement and to avoid impression discussions limited to particular clique with others treated as outsiders. Dept has no complete list countries with dipl representatives China. Pls inform Dept omission any countries which you believe shld be included.

Rptd London for info and to pass substance in Emb discretion to FonOff.

WEBB

⁸² Latter not printed.

893.01/6-1149 : Telegram

The Ambassador in Burma (Huddle) to the Secretary of State

RANGOON, June 11, 1949—1 p. m.

[Received 11:32 p. m.]

230. Foreign Office note June 9 informs Embassy [that] Union Government is in complete agreement with common front policy based on two principles set forth by Embassy (Deptel 123, June 4, second paragraph) and would be most grateful if Embassy would communicate these views to Department of State.

Foreign Office states further it has lost direct contact with Burmese Ambassador, Nanking. He has recently been instructed through British Embassy to return Rangoon for consultation and presumably will leave Nanking near future. Foreign Office, however, is anxious he should continue participate consultations Nanking while he is there and requests that he be informed through American Embassy, Nanking, that Union Government has signified acceptance common front policy.

GOB also feels that proposed exchange views between Department and Burmese Ambassador, Washington, would be highly beneficial.

If Department receives from Nanking news of Burmese Ambassador's plans and welfare, I should be glad to communicate it to Foreign Minister.

HUDDLE

893.01/6-849 : Telegram

The Acting Secretary of State to the Chargé in Australia (Foster)

WASHINGTON, June 14, 1949—6 p. m.

82. Following in response ur 111 Jun 1 and 114 Jun 8 for conveying in ur discretion Burton and McIntyre.

Discussions and exchanges views re question possible recognition Chi Commie regime continuing informal basis. Views other countries so far recd indicate gen agreement desirability avoiding eagerness or haste in matter recognition and desirability countries having similar interests act along common lines. This reflects fact that Chi Commies have not as yet established govt purporting be central govt for Chi and gen view that if such govt is established, recognition may be valuable lever for obtaining new govt's acceptance China's internatl responsibilities. It is realized that mere acceptance internatl responsibilities does not guarantee fulfilment but if acceptance not obtained

prior recognition even this would probably be impossible obtain subsequently. Value of lever depends to considerable degree common approach to matter by countries having similar interests.

In our view extent Chi Commie coop[eration] with West will be determined by their need for such coop and not by promptness in extending recognition to them. We believe that on contrary over-eagerness extend recognition likely encourage Chi Commies high-handed disregard for interests which recognition would seek protect.

In discussing this matter you may wish to have in mind statement of Austral Amb at Nanking reported Nanking's 118 [1118] to Dept May 26, rptd Canberra 1.

For our further info, representative Austral Emb Washington orally outlined to Dept views his Govt substantially as reported ur 111 and was informed Dept's views along lines given above.

WEBB

893.01/6-1449 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, June 14, 1949—7 p. m.

[Received June 15—12:31 a. m.]

1515. Chargé today conveyed President Quirino information supplied Depcirtel June 10⁸³ regarding adopting common front on question recognition Chinese Communist regime.

Quirino emphasized his approval of such common front and stated he did not want any representative of his government to take any action which might be interpreted imply recognition. He informed Chargé that even prior Communist occupation Nanking he instructed Legation there cooperate fully with other chiefs mission regarding any action to be taken vis-à-vis Communist authorities and abide by jointly reached decisions.

President added he had prior fall Shanghai instructed his Consular Office there not participate as member proposed committee to be chosen from members Consular Corps to treat with Communist authorities after occupation that city.

Sent Department, Repeated Nanking 41, Canton 14.

LOCKETT

⁸³ Not printed.

893.01/6-1649

Memorandum of Conversation, by the Secretary of State

[Extract]

MEETING AT QUAI D'ORSAY,⁸⁴ JUNE 16, 1949—3:00 P. M.

Participants: Mr. Acheson
 Mr. Bohlen⁸⁵
 Mr. Schuman
 Mr. Parodi

China

Mr. Schuman said he thought it was essential that our two Governments keep in contact in regard to our attitude toward the future Government of China and particularly on the question of recognition. He said they had had no contacts with the Chinese Communists but that in their opinion it would be possible if handled correctly to obtain guarantees from the Chinese Communist Government to respect the frontiers of Indochina when the question of recognition arose.

I told Mr. Schuman that I felt strongly that all the Western powers should keep in contact and should maintain a common front in regard to the developments in China and particularly any question of recognition. I told him that we had received a number of informal feelers from Chinese Communist officials but had not responded.⁸⁶

893.01/6-1749: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, June 17, 1949—1 p. m.

[Received June 18—8:45 a. m.]

682. 1. Menon, Foreign Secretary, read to me on June 16 excerpts telegram from Panikkar, Indian Ambassador to China, in which Panikkar reported US Ambassador to China had informed him that GOI⁸⁷ had promised USA not to recognize Chinese Communist Government without prior consultation with US. Telegram expressed

⁸⁴ French Foreign Office.⁸⁵ Charles E. Bohlen, Counselor of the Department.⁸⁶ See vol. VIII, "Political and military situation in China", chapter V.⁸⁷ Government of India.

surprise that GOI should have given such undertaking. Panikkar pointed out if India's approach towards new Communist China should be based on undertakings this kind, Chinese Communists might obtain impression that India was allying itself with Western Powers against them. Menon said that so far as he knew, GOI had given no such promise and asked if I had any idea on what American Ambassador's statements to Panikkar could be based.

I said that I was unaware such commitment and thought it possible that Panikkar might have misunderstood substance Ambassador's statement to him. I outlined to Menon substance mytel 600, May 26, as I recalled it, and Menon said statements made in mytel seemed correct to him. We agreed they did not represent any undertaking on part of GOI. He said that GOI did not intend push ahead in recognizing Chinese Communist regime but wished retain free hand.

2. Later in day in discussing another matter with Bajpai, I referred to conversation with Menon and allowed him read copy mytel 600 which he agreed was fair summary our conversation May 25. He said Panikkar in another section his telegram indicated that American Ambassador seemed to feel that there was some understanding which would permit US to work out principles which were to be observed by other powers including India in approaching problem recognition Chinese Communists. I outlined to Bajpai substance Depcirtel June 10, 3 a.m.⁸⁸ He made no comment other than say it seemed to him that best procedure would be for various governments represented Nanking to refrain from making public statements and from initiating discussions with Chinese Communists re recognition and to await approaches to them by Communist regime. Decisions with regard to question of recognition might be based in part on time and manner such approaches. I agreed but said it seemed rather important that there should be some kind of understanding among powers concerned not to permit themselves to be played off against one [an]other by Chinese Communists. There were probably still number diplomats in influential positions so naive as to believe that their governments might obtain some special benefit by rushing ahead of others in granting recognition. Bajpai indicated although he did not say so directly that responsible officials of India were not so naive.

3. I shall discuss problem of Chinese recognition later with Bajpai or perhaps with PriMin⁸⁹ himself when a favorable opportunity arises. Unwise in my opinion press India just now give any kind definite undertaking.

HENDERSON

⁸⁸ Not printed.

⁸⁹ Prime Minister Jawaharlal Nehru.

893.00B/6-1749 : Airgram

The Chargé in Pakistan (Doolittle) to the Secretary of State

KARACHI, June 17, 1949.

[Received June 25—4:30 p. m.]

A-282. ReDepintels February 4 and May 18⁹⁰ recognition Commie regime China. In recent informal talk with Acting Fon Secy, I suggested GOP⁹¹ discount press reports US would rush recognize Commie regime since regime must first demonstrate stability and willingness assume international obligations also initiative re recognition must come from Commies. Acting Fon Secy now informs Emb GOP has carefully considered matter, is in agreement US policy not be rushed into precipitate recognition, states Pak[istan] will not recognize Commie regime without prior consultation US Govt. GOP asks in return US not recognize Commie regime without prior notice Pak which will enable GOP take simultaneous action.

DOOLITTLE

893.01/6-2049 : Telegram

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

WASHINGTON, June 20, 1949—7 p. m.

717. ReDepintel May 24, 1 a. m.,⁹² Fr[ench] attitude toward recognition Chi Commies. Emb Paris reports Baeyens has reaffirmed principle common front re recognition Chi Commies and question acceptance existing Fr Chi treaties mentioned reftel used merely as illustration. Paris states Baeyens did not imply Fr wld take unilateral action if Commies accepted Fr-Chi treaties while refusing accept treaties betw Chi and other powers.

WEBB

893.01/6-2149 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, June 21, 1949—11 a. m.

[Received 12:13 p. m.]

700. During conversation Bajpai yesterday I asked if he could not further clarify GOI attitude China. I was not requesting commitments but would like have statement intentions. He replied "GOI

⁹⁰ Neither printed.⁹¹ Government of Pakistan.⁹² Not printed.

does not intend act unilaterally re extension recognition Communist Government China or re other aspects its relations that government. It intends keep in touch other governments and see what they decide to do". Following brief discussion Panikkar, Indian Ambassador to China, Bajpai assured me all important decisions re China made in Delhi.

HENDERSON

893.01/6-2649 : Telegram

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

NANKING, June 26, 1949—9 p. m.

[Received June 26—2 p. m.]

1379. Substance Deptel 711, June 17,⁹³ communicated to Burmese Ambassador here. Confidential message from him to Foreign Minister, Rangoon, despatched directly American Embassy there.

STUART

893.01/6-2849 : Telegram

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

NANKING, June 28, 1949—2 p. m.

[Received June 28—9:02 a. m.]

1393. Indian Ambassador must have misinterpreted my comments to him on his Government's position regarding Chinese Communists based on Delhi's telegram 600, May 26. I am so well aware of Indian representatives' sensitiveness regarding their country's new found position independence that I would hardly have consciously given impression that Indian Government was following US or any other government's lead in China policy. However I will not reopen subject with Panikkar lest further misunderstanding result.

I am grateful for Henderson's discussions in Delhi and his reports of GOI attitude toward Communist China which are useful background information for me in general discussions with my colleagues Nanking.

Repeated New Delhi 5.

STUART

⁹³ Not printed; it requested inclusion of the Burmese Ambassador in consultations on common-front policy (893.01/6-1749).

893.01/6-2849 : Telegram

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

NANKING, June 28, 1949—2 p. m.

[Received June 28—8:54 a. m.]

1395. While Embassy finds Deptel 717, June 20 (repeated Shanghai 1243, Telcan 356, Paris 2193) reporting conversation with Baeyens somewhat reassuring, attitude local French Mission one of determination recognize Communist regime earliest protect French interests Indochina. French Ambassador says he has no instructions from Paris leave China for consultation or for any other purpose. He envisages his role as one of remaining China to negotiate *de jure* recognition with Communist regime and completing all arrangements for new French Embassy to new Chinese Government before arrival his successor. French Counselor has opined his Embassy will be in Peiping (presumed new capital) by Christmas. When suggested negotiations, [on] recognition, once Communist Central Govt formed, would be long drawn out, he replied, "Perhaps for you (meaning USA) but not for us as we have no treaties with China which we care about. We are only interested in Indochina."

Similar attitude is reflected by younger secretaries. We cannot escape impression that local French Embassy, perhaps reflecting Quai d'Orsay, sees its China policy only in terms French colonial possessions Southeast Asia and quite isolated from any world policy or general international obligations French to their western allies.

Repeated Shanghai 772, Canton 589, Paris 7.

STUART

893.01/6-2949 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, June 29, 1949—5 p. m.

[Received 8:01 p. m.]

2517. Depcirtel June 10, 3 a. m.,⁹⁴ and previous, re united front re recognition Chinese Communist Government.

1. Foreign Office has been kept fully informed and is grateful for information.

2. Asked whether any truth in press reports, some emanating from US, to effect that strong pressure being brought by British interests

⁹⁴ Not printed.

China for early recognition Chinese Communist Government, Foreign Office states very little truth. Pressure from British interests China at minimum; British interests appear at present content leave matters in hands British Government and to accept consequences.

DOUGLAS

893.01/7-249 : Telegram

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

NANKING, July 2, 1949—6 p. m.

[Received July 2—8:54 a. m.]

1427. British-owned Shanghai English-language paper June 23 features AP Canberra June 21 despatch re Evatt speech to Australian House of Representatives under headline "Evatt would recognize New Regime here." Embassy wishes point out this type of statement example of sort of thing we were trying to avoid by our common-front policy which specifically emphasizes in point 1 disadvantages of initiating any moves toward recognition or giving impressions through statements officials that any approach by Communists seeking recognition would be welcomed (Depteirtel May 6, 5 p. m.).

Sent Canberra 3, repeated Department, Shanghai 792 Emboff Canton 603, Canberra.

STUART

893.01/6-2849

Memorandum of Conversation, by the Assistant Chief of the Division of Western European Affairs (O'Shaughnessy)

[WASHINGTON,] July 7, 1949.

Participants: M. Daridan, French Embassy ⁹⁵Mr. MacArthur, WE ⁹⁶

Mr. O'Shaughnessy, WE

Mr. Daridan called today at our request. He was informed that word had reached us from Nanking that the French Embassy there had expressed its determination to recognize the Communist regime at the earliest date in order to protect French interests in Indochina (see Nanking's 1395 of June 28). We stressed the need for following a common course of action in China and expressed our concern over the effects of premature recognition of the Chinese Communist Government on the situation in Indochina. Mr. Daridan replied that the

⁹⁵ Jean Daridan, Minister Counselor of the French Embassy.

⁹⁶ Douglas MacArthur 2d, Chief of the Division of Western European Affairs.

views set forth by the French Embassy in Nanking do not necessarily reflect the views of the Foreign Office and that it was perhaps difficult for the French in China to view the problem with sufficient objectivity in view of their proximity to Indochina. He added as an extenuating circumstance that French Ambassador Meyrier was an "able administrator" rather than a top-flight political officer and that furthermore he was surrounded by a green staff. He said that he would communicate with Baeyens personally and bring our concern to his attention.

893.01/7-1249 : Telegram

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

Moscow, July 12, 1949—6 p. m.
[Received July 12—1:14 p. m.]

1733. Re reports French Mission Nanking determined "recognize Chinese Communist regime early to protect French interest Indochina" (Department's infotel June 29⁹⁷). French Ambassador here has shown us French Foreign Office confidential policy paper on subject which indicates French official attitude is to delay recognition. In conversation on same topic French Counselor, after asserting his Government's attitude paralleled ours, inquired re significance report he had seen to effect Ambassador Stuart had recently made off-the-record talk in Shanghai favoring recognition.

Sent Department, repeated Nanking 77, Canton 42, Shanghai 17.

KIRK

893.01/7-1549 : Telegram

The Chargé in Australia (Foster) to the Secretary of State

CANBERRA, July 15, 1949—4 p. m.
[Received July 15—5:25 a. m.]

151. Saw Evatt and Burton today about several matters and took opportunity express hope that Australians still adhered policy non-recognition Communist regime China. Evatt said that while there was still no intention here of proposing "government to government" recognition he believed powers must develop practical working relations with regime especially through commerce and trade. He deplored what he called the economic cordon being erected by the US around North China and said he felt such measures offered no permanent solution.

⁹⁷ Not printed.

Please telegraph whether as outlined Deptel 82, June 14 our position remains the same today.

Sent Department, repeated Nanking.

FOSTER

893.00B/7-2049 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 20, 1949—7 p. m.

2516. As you already know we are engaged in very thorough study and reexamination of our policy in the Far East with particular reference to what should now be done throughout the area to check the spread of Communism. In our current thinking study of problem of what if anything can be done on Chinese mainland must not be allowed to obscure various measures which can be taken throughout area. I wish you would see Bevin if possible before he leaves on vacation and tell him that I have asked you to continue for me series of frank private conversations which he and I had in Washington and Paris. You can remind him that on two occasions he spoke metaphorically of taking a "trip around the world" in order to see whether our two countries could not have a common policy. I now want to have through you a frank exchange of views with him regarding the Far East in a "matey sort of way" as he expressed it in Paris when we discussed Hong Kong, before either Govt has finally crystallized its position. Accordingly, following points can be mentioned to him as problems rather than as indicating positions already taken by this Govt. You may wish to remind him that UK has strongly urged need of firm position in case Commies attack Hong Kong and asked our support. Does this view not imply need firm common position all along line?

Among most immediate problems are attitudes to be taken toward the Chinese Communists. This problem includes question of continued recognition of National Govt through its various vicissitudes contemplating even possibility of its being a govt in exile. As a corollary there is question of non-recognition of Communist govt especially as it may spread its control and, possibly with Soviet backing, assert that it is the govt of China. This question may arise in regard to seating Chinese representatives in UN, Far Eastern Commission, and other international bodies. Next there is question of trade with Communists. On this point we already know that British are reluctant to take steps which might injure their commercial interests. We are somewhat

disturbed by reports of British business interests approaching Commie officials and suggesting cooperation. I think this subject needs to be reviewed in light of the far greater and graver issues of possible Communist domination not only of China but remainder Asia as well. Bevin stressed this broad approach in a memo on South East Asia which he handed me in April.⁹⁸ There is also question of protection or withdrawal of nationals from Commie areas of China.

We are further considering and I would value Bevin's views on the desirability of broadening the consideration of all these problems by exploratory consultations with other interested govts including not only the UK, Canada and France but also Netherlands, Australia, New Zealand, and the Asiatic countries, such as India, Burma, Philippines, Siam, etc. The Chiang-Quirino discussions present us with obvious risk of misunderstandings in moving forward along these lines but we do not now think the possibility of consultation should be written off because of the implications of a possible Chinese-Korean-Philippine Pact. You will have noted the negative position which I took on a Pacific Pact in my press statement of May 18.⁹⁹ Preliminary consultations could perhaps begin with problems we shall all face in terms of recognition of Chinese Govt and dealing with Chinese Commies. As you know, we have already initiated consultations on this latter point. We would also in any such consultations avoid trying to take leadership in sponsoring any grouping of countries interested in Pacific. We think first steps along such lines should be taken by Asiatic states, preferably under Nehru's leadership. At this stage we would want to establish principle of consultation in advance rather than agreement on specific proposals. We would like to know how far the UK would support us in any such conversations. For your own info only we may begin certain talks with Canadians immediately. If Bevin raises other points including those he has raised previously such as Japan, please say we wish to explore with him all aspects Far Eastern situation.

Bevin should also be told we plan to publish the so-called China White Paper¹ about end of month. This will be entirely frank revelation of situation particularly since 1945 and will include texts of many documents. It will frankly reveal deficiencies of Chinese National Govt. It carefully avoids materials involving policies or actions of UK or other govts except US, China and Soviet Union.

⁹⁸ Dated April 2; not printed.

⁹⁹ See Department of State *Bulletin*, May 29, 1949, p. 696.

¹ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949); for correspondence on the publication of the White Paper, see pp. 1365 ff.

You will of course have in mind any points of view which may have developed in Kennan's² conversations.

ACHESON

890.00/7-2249 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 22, 1949—11 a. m.

[Received July 22—9:30 a. m.]

2881. I called on Bevin yesterday evening and passed on to him substance Deptel 2516, July 20, 7 p. m.; Bevin noncommittal. He referred to conference on Middle East problems now under way in London and confessed preoccupation therewith. He said he hoped to initiate steps to make the Near and Middle East secure before becoming involved too deeply in the Far East. He had in mind a thorough review of the Chinese scene during his visit to Washington in September and hoped it would be possible to have Ambassadors Stuart and Stevenson present at the time. He suggested establishment of joint US-UK board which would perform much the same function for entire area from Turkey to southeast Asia as Middle East study had performed for 1947.

I agreed to forward suggestion to Department but pointed out China problems were matter of urgency and required early consideration. Bevin concurred and said he would try to give Denning benefit his views before his departure tomorrow.

With regard to Deptel 2517, July 20, 7 p. m.,³ I told Bevin our very first-blush reaction was that he felt that at this juncture we could hardly go along with any such program for relief of Shanghai. This, however, was tentative.

DOUGLAS

890.00/7-2349 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 23, 1949—7 p. m.

[Received July 23—6:05 p. m.]

2910. Bevin has informed me that he is very willing that British and US officials should consult together on the problems dealt with in Deptel 2516, July 20 and Embtel 2881, July 22. He suggests that

² George F. Kennan, Director of the Policy Planning Staff, who was visiting in London.

³ Not printed.

these talks be carried on while he is away and that when he comes back he will look into the question further with me. Will keep you advised. Is this what you wish?

DOUGLAS

890.00/7-2349 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 25, 1949— 8 p. m.

2602. Plan indicated your 2910 satisfactory. It establishes idea of continuing consultation and exchange of views which is what we desire.

ACHESON

890.00/7-2649 : Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary
of State*

LONDON, July 26, 1949—6 p. m.

[Received 9:46 p. m.]

2951. In conversation with Embassy official today Dening characterized as entirely off the cuff Bevin's suggestion re Stuart and Stevenson (Embtel 2881, July 22). He said suggestion not especially favored by Foreign Office as presence of Ambassadors in Washington would give too obvious an emphasis to Bevin's visit, and in all probability would not be acted upon—at least so far as UK was concerned. Dening indicated he himself would probably accompany Bevin to Washington.⁴

Dening stated British Government quite sympathetic with Secretary's general approach to Far East question, that interdepartment committee would meet tomorrow to discuss means of implementation, and would likely set up working committee to deal with question.

DOUGLAS

893.00B/7-2949 : Telegram

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

NANKING, July 29, 1949—noon.

[Received 1:43 p. m.]

1641. We believe that Department should give careful consideration to issuance of statement saying in effect that, if Chinese Com-

⁴ In telegram No. 2683, July 30, 1 p. m., the Department replied that it was in accord with the attitude of the British Foreign Office.

munists persist in their disregard of international law and international obligations, US will in future not consider itself bound to extend, on territory subject to its jurisdiction or control, any right granted by international law or international obligations to Chinese Communist authorities or Chinese owing them allegiance. Whereas at moment American interests in China are undoubtedly greater than Chinese Communist interests in US, balance is almost certain to swing in our favor.

It occurs to us, moreover, that such declaration might pave way if we so chose to deny to Chinese Communists any rights granted China in Japan and Western Germany pursuant to agreements re those countries. This is particularly pertinent in view of recent aggressive interest shown by CCP in participating in Jap peace settlement. (See Embtel 1564, July 20.⁵)

STUART

890.00/7-2949 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 29, 1949— 5 p. m.

[Received July 29—4:06 p. m.]

2999. 1. In reply to query re outcome interdepartment committee meeting on Far East problems (Embtel 2951, July 26), Dening, Foreign Office, stated little of concrete nature had eventuated but that memo on subject would probably be forwarded British Embassy, Washington, next week. This may indicate Foreign Office desires center discussions Washington.

Present atmosphere London unfavorable discussion Chinese problems as Bevin, Cripps⁶ and other Cabinet Ministers will be taking leave in August during which period, according to Dening, it will be practically impossible get decision on important matters.

2. British generally feel China primarily American problem and will expect US to take lead in negotiations. Little difficulty anticipated in getting British cooperation in questions raised by Secretary (Deptel 2516, July 20) with possible exception of trade with Communists. As Department is aware, British very reluctant restrict established British commercial interests in China and are obsessed with necessity of exporting wherever possible. British probably will not, except in limited degree, acquiesce in curtailing export to China of any but 1A list items and petroleum products.

⁵ Not printed.

⁶ Sir Stafford Cripps, British Chancellor of the Exchequer.

3. Reference suggestion Nehru might assume leadership Asiatic bloc, Bevin told Ambassador in confidence last week Nehru increasingly concerned spread of Communist influence India and consequently could be counted upon to pay progressively less attention to foreign affairs and to devote himself increasingly to interior problems.

DOUGLAS

893.01/8-1049 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, August 10, 1949—5 p. m.

[Received 5:19 p. m.]

3150. Following believed reasonably accurate summary Foreign Office views on Far East problems mentioned Deptel 2516, July 20. Source information primarily Dening who states British Embassy, Washington, informed substance Embassy-Foreign Office conversations.

1. Question withdrawal recognition present Chinese Government and recognition Communist government will be decided on basis participation UN. Likely question will arise before end of next meeting of UNGA,⁷ as by then Communists will have formed all-Chinese Government and will likely have attempted force issue by sending delegation Lake Success or by other means. At such time UK and US as well as other friendly delegations will be in position consult behind the scenes and arrive at common position depending on circumstances at time.

2. UK and US have already issued withdrawal warnings to nationals, but UK warning more restrained. Further divergence noticeable in US plans to close Tihwa and probably Chungking and Kunming⁸ (Deptintel August 5, 1 a.m.⁹). British do not now contemplate any such action. They believe conditions at worst will not become more stringent than in East Europe satellite areas.

3. Department already aware reluctance UK go along with US views in adapting R procedure to China (Embtel 2956, July 26¹⁰).

4. British feel SEA nations should be brought to realize there will be no Marshall Plan for Asia on European pattern and no substantial military aid program. British fed up with tendency of certain newer nations in SEA, notably Pakistan, to attempt blackmail with "unless you give us substantial military, economic and political assistance,

⁷ United Nations General Assembly.

⁸ For correspondence on consular posts in China, see vol. VIII, "Decision to close Consulates in Nationalist-held China . . .".

⁹ Not printed.

¹⁰ *Post*, p. 866.

we shall have no choice but to go Communist" approach. Every means should be employed to demonstrate to eastern nations implication of coming to terms with communism and to convince them of interdependence of east and west and necessity for close cooperation.

5. British economic survey of SEA area nearing completion and should be in Bevin's hands before his departure for US late this month. Survey stresses necessity for increasing food production which should have priority over all other economic aid. Methods for increasing occidental-oriental trade being studied and special attention being given to specific commodities which would figure in such trade. But inescapably there must be some reasonable solution dollar-sterling problem.

DOUGLAS

893.00/8-1749

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

No. 1357

LONDON, August 17, 1949.

[Received August 22.]

SIR: I have the honor to transmit herewith, with reference to the Embassy's telegram No. 3240 of August 16, 7 p. m.,¹¹ copies of the following documents:

Letter from Ambassador Douglas to Foreign Secretary Bevin dated July 22, 1949.¹²

Letter from Foreign Secretary Bevin to Ambassador Douglas dated July 22, 1949.¹³

Memorandum from the Foreign Office dated August 15, 1949, entitled "China."

The memorandum from the Foreign Office was handed to Mr. Ringwalt¹⁴ and me by Mr. M. E. Dening, Assistant Under-Secretary for Foreign Affairs in charge of Far Eastern matters, who stated that the memorandum represented interdepartmental views on the China problem but not necessarily ministerial opinion, as some of the Ministers concerned, including Mr. Bevin, the Foreign Secretary, and Sir Stafford Cripps, the Chancellor of the Exchequer, have been on the Continent for the past several weeks. Mr. Dening stated that it is possible that Mr. Bevin, who has not yet seen the memorandum, might

¹¹ Not printed.

¹² Not printed; it was based on telegram No. 2516, July 20, 7 p. m., to the Ambassador in the United Kingdom, p. 50.

¹³ Not printed; its substance was given in telegram No. 2910, July 23, 7 p. m., from the Ambassador in the United Kingdom, p. 52.

¹⁴ Arthur R. Ringwalt, First Secretary of Embassy.

repudiate some of the views contained therein, although he doubted it, as he was well acquainted with Mr. Bevin's views in regard to the Far East.

Respectfully yours,

For the Ambassador:
ERLE R. DICKOVER
Counselor of Embassy

[Enclosure]

Memorandum Prepared in British Foreign Office

CHINA

General

It may be convenient to indicate briefly our assessment of the general situation in China before reviewing the particular problems raised in the United States Ambassador's letter to Mr. Bevin of the 22nd July.

2. There do not seem to be any further grounds for hope that the Communists will fail in their bid for complete power in China. Effective or prolonged resistance cannot be expected from the discredited Nationalist Government, which can no longer hope for large-scale outside assistance, nor, a fortiori, from any splinter factions into which the Nationalist Government may disintegrate. Planning must therefore be on the assumption of Communist domination of the *whole* of China in the near future.

3. There is no doubt that the present leaders of the Chinese Communist Party are orthodox Marxists-Leninists and that their present strongly pro-Soviet policy constitutes a serious threat to Western political and economic interests not only in China but also in South East Asia.

4. As regards South East Asia it would appear of cardinal importance to encourage the establishment of an effective anti-Communist front to prevent Communist encroachment beyond the borders of China. As regards China itself, it is considered that at the present stage any outside attempt to prevent the Communists from attaining complete power in China would not only be bound to fail but would rally the traditionally xenophobe Chinese behind their new rulers, and that to display a general and avowed hostility to the new régime is calculated to drive it further into the arms of Moscow.

5. It is therefore considered that the only hope of encouraging the emergence in China of a less anti-Western tendency is to give the new régime time to realize both the necessity of Western help in overcoming its economic difficulties, and the natural incompatibility of Soviet imperialism with Chinese national interests (e.g. in Manchuria).

Every opening for emphasizing that Moscow's designs are incompatible with a strong and independent China should be seized. In general we wish to avoid as far as possible head-on conflict with the Communists at present, though we have no intention of pursuing a policy of appeasement on major issues.

Economic

6. For the following reasons it is considered that Western commercial and financial interests should endeavour to maintain themselves in China for as long as possible :

(a) If and when the Communists begin to realize the necessity for trade with the West in overcoming their economic difficulties, it is to be presumed that their first advances will be made not to governments but to private concerns, and it is therefore important that there should be Western concerns in China which can be approached. If at a later stage the Communists wish to make an approach to governments it is considered that their proposals should be considered on their merits. His Majesty's Government have, of course, no intention of making official advances to the Communists, but they equally do not wish to show open hostility by dissuading British commercial interests from entering into normal commercial relations with them.

(b) Although there can be no doubt about the fundamental hostility of Chinese Communism to foreign mercantile communities, it nevertheless remains possible that experience may induce a more realistic attitude in the Communist authorities, who are at present themselves to some extent prisoners of their own propaganda. There may be few grounds for optimism as to the future; but we should be unwise to abandon what remains of our position in China until it becomes abundantly clear that it is untenable. It is of course practically certain that long-established and deep-rooted commercial establishments and connections, once abandoned, could never be restored.

(c) In view of its position in Hong Kong and South East Asia the United Kingdom has, of course, every reason for being anxious to avoid mercantile transactions of a kind which might result in increasing the military strength of Communist China. It is not considered, however, that the continuance of normal trade in civilian requirements need result in any perceptible accretion to the war potential of a Communist administration in China, while any hardships resulting from the cessation of trade would fall, in the major industrial towns at any rate, on the population as a whole. These would, of course, be represented by the Chinese Communists as entirely due to the hostility of the "Imperialist" powers.

(d) It is recognized that foreign economic interests in China are likely sooner or later to be faced with the threat of expropriation. Provided that the normal channels of commerce are still open the Communist desire for trade with the West may conceivably be strong enough for some sort of trade and compensation agreement to be secured eventually.

(e) But perhaps more important than the foregoing considerations is the fact that foreign trading communities constitute a major element

in Western influence in China. We consider that it is of the first importance to maintain for as long as possible the maximum Western contact and influence behind the Asiatic Iron Curtain, particularly bearing in mind that it may conceivably prove that one of the tasks most beyond the powers of the Communist régime may be that of regimenting and controlling the deep-rooted trading propensities of the individual Chinese. So long as hope remains of exploiting the Chinese instinct to trade to the detriment of the Communist cause complete abandonment of our position in China would appear to be premature, to say the least.

(f) Finally, in the long term, the potentialities of China under a strong and efficient Government as a source of raw material and food-stuffs and as an export market should not be forgotten. It would be a misfortune should at some future time these potentialities be realized if the western world were then cut off from what might become available. It must still be our hope that opportunities will eventually arise for co-operation by the western world with an effective Chinese Government for the economic development of the country for the benefit of the Far East and the world as a whole. The severance of existing commercial links with China would run entirely counter to such an objective, however remote it may seem for the present.

7. For the above reasons, although our merchants in China may eventually have to cut their losses and leave, it is considered that it is neither in our political nor in our economic interests that they should do this if it can be avoided; and we do not share the view, which we gather to be that of the United States authorities, that foreign merchants who have stayed behind have put themselves in the position of hostages in their search for private gain and are therefore deserving of little sympathy. Moreover it must be remembered that the British firms in China are private traders. The decision whether it is worthwhile for them to continue to try to keep alive their activities must still primarily be theirs. His Majesty's Government would not in existing circumstances feel justified in seeking to prevent those who are willing and able to go on trading and would certainly not wish to be responsible by such prevention for any ensuing losses.

8. This does not, of course, mean that British mercantile communities in China would be advised to continue indefinitely to do business on humiliating and unequal terms. It is intended that British concerns in China should be encouraged to co-operate fully with each other, and with the commercial communities of other friendly Powers, so that as trade opportunities offer they will be in a position to take advantage of Communist needs to secure improvements in the conditions under which they are permitted to operate.

Evacuation

9. As indicated above, His Majesty's Government are not in favour of a premature abandonment of British interests in China, and they

consider that the longer British merchants and British missionaries (the two main elements of the British communities in China) are able to maintain a footing in China the more hope there is of maintaining British political and economic interests.

10. Broadly speaking the British communities in China are still determined to maintain themselves if they can, though of recent weeks there has been some feeling in favour of evacuation. If British nationals want to leave His Majesty's Government will certainly furnish such assistance as they can to enable them to do so, but it is not proposed, at present at least, to advise them to do so wholesale.

Recognition

11. The Charter of the United Nations¹⁵ (Articles 23 and 27(3)) appears to be so framed that unless there is a Chinese representative the Security Council can take decisions only on procedural matters. It therefore seems essential that *de jure* recognition should not be withdrawn from one Chinese Government until *de jure* recognition can be accorded to its successor. The questions of continuing to recognize the Nationalist Government and of according recognition to the Communists thus appear to be two facets of the same problem.

12. No question of according *de jure* or *de facto* recognition to the Communists can arise until the Communists form a Government claiming to be of national character. However, there are various indications that the Communists hope by their present offensive southwards to acquire so much territory as to be clearly the effective rulers of China. They will then probably set up a Government, to which Soviet recognition will doubtless promptly be accorded. The Communists apparently hope that this stage will be reached by mid-autumn 1949.

13. It is thus likely that the recognition question will become acute in the next few months. There are, however, still too many undetermined factors for detailed consideration of the action to be taken in all possible contingencies to be profitable at this stage. The issues therefore can be usefully discussed only in general terms.

14. At the worst, the relations of the British Commonwealth and North Atlantic Powers with a Communist Chinese Government after recognition may follow the pattern of their relations with Soviet satellite states in Eastern Europe. There is however the possibility that the pattern will eventually develop along the lines of our present relationship with Jugoslavia, and it is therefore considered that the Western Powers should be careful not to prejudice future possibilities by developing an openly hostile attitude towards a Communist régime from the outset.

¹⁵ 59 Stat. 1031.

15. The political objections to precipitate recognition of a Communist régime are obvious. On the other hand to withhold recognition from a government in effective control of a large part of China is legally objectionable and leads to grave practical difficulties regarding the protection of Western interests in China. It is most unlikely that the fulfilment of any special conditions can be exacted in return for recognition of the Communist régime, and it is therefore probable that after a certain stage delay in proceeding with recognition might seriously prejudice Western interests in China without any compensating advantages being obtained. The Chinese Communists themselves are unlikely to be seriously inconvenienced by the withholding of recognition. For their part they will probably decline to enter into diplomatic relations with any Power which continues to recognize the Nationalist Government.

16. Since the Nationalist Government is not considered to be any longer capable of maintaining effective resistance, the question of its continued recognition by the Powers should be considered on a basis of practical convenience rather than of sentiment. If there is Nationalist control in Formosa and/or in Western China it may be considered sufficient to regard the authority there as the *de facto* authority in control. The most important factor governing continued recognition of the Nationalist Government will however be the question of United Nations representation.

17. As regards Chinese representation in the United Nations Organization, it seems probable that, according to the Communist timetable as far as it can be estimated, the National Government will continue to represent China during the forthcoming session of the Assembly. But the possibility cannot be excluded that a change of China's representation will become a live and controversial issue even while the Assembly is in session. It is impossible to determine in advance what the attitude of the Commonwealth and North Atlantic Powers should be in such an event, but clearly it will be desirable that there should be close and continuing consultation between them.

[LONDON,] 15 August, 1949.

S93.01/8-1949 : Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Officers*¹⁶

WASHINGTON, August 19, 1949—5 a. m.

As you are aware, Dept as long ago as May approached friendly govts having diplo representation in China offering exchange info re

¹⁶ Sent to Batavia, Bangkok, Hanoi, Manila, New Delhi, Rangoon, Saigon, and Singapore.

developing situation and particularly pointed out that altho Chi Commie auths had not yet organized themselves into govt or invited recognition, it was Depts view that 1) when they did so friendly powers shd consult before taking individual action; 2) no purpose wld be served or benefit derived from hasty individual acts recognition.

Indications are following fall Canton Chi Commies will hold some form Polit Consultative Conference and perhaps invite recognition mid-Autumn.

Altho there are indications some countries, as Australia for example, may promptly accord recognition, this govt has no such intention. It is in these circumstances Dept wishes your confidential estimate as to effect on opinion in country and/or govt to which you are accredited if a) recognition is withheld by the principal Western Powers, i.e. US, UK, France; b) if recognition forthcoming by principal Western Powers within reasonable length time; c) if Eng or France join with other powers in according recognition and US shows firm disposition not to recognize.

It is quite possible that this matter will first manifest itself in UN and therefore possibilities set forth above shd also be appreciated in light of attitudes adopted by powers concerned in discussion in UN.

ACHESON

893.01/8-2349 : Telegram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, August 23, 1949—1 p. m.

[Received August 24—7:11 a. m.]

739. Following are answers to questions raised Depcirtel August 19, 5 a. m.

1. (a) In minds Thai Government and people US and UK are chief opponents communism and therefore nonrecognition would be expected. Thailand almost certainly would follow US-UK lead. Nonrecognition would be welcomed by present government and majority Thailand since this would solve serious problems which would follow recognition by Thailand of Chinese Communist Government. With 3 million Chinese in Thailand occupying dominant position in economy country and with well-organized Chinese Communist group already actively engaged in attempt soften up Thailand through propaganda, it is easy foretell that arrival Chinese Communist diplomatic, consular representatives this country would force virtually all Chinese in Thailand support Communists and would almost certainly precipitate early Communist coup with Thai nationals being used as facade for Communist-dominated people's democratic government.

Nonrecognition by US and principal Western Powers would give Thailand some chance warding off Communist domination. On other hand, recognition by US and Western Powers, which Thailand would feel she must likewise accord in order avoid isolation, would intensify this country's difficulties and problems to degree where Communists would emerge triumphant and add Thailand to other subjugated countries.

(b) Whether recognition by principal Western Powers immediate or after reasonable length time would not materially alter problem for Thailand.

(c) If US were sole power not accord recognition, Thailand would be faced with serious and difficult decision. In such contingency, believe if we gave them comprehensive military and economic support they would stand with us; if not, they would recognize, fearing isolation.

2. Generally speaking, it is Phibun's¹⁷ policy follow lead US-UK in these matters and adhere decisions UN. He has repeatedly told me this and I believe it represents both his thinking and desire and also desire majority Thailand. However, as previously reported, Thailand fatalistic and inclined take line least resistance unless fully assured foreign support, particularly US. Therefore US decision on question recognition Chinese Communist Government of momentous import to Thailand.

STANTON

898.01/8-2349: Telegram

The Consul General at Saigon (Abbott) to the Secretary of State

SAIGON, August 23, 1949—3 p. m.
[Received August 23—1:03 p. m.]

265. Difficult to make brief and comprehensive reply to Depcirtel August 19, 5 a. m. because of varied authorities and interests found in IC.¹⁸ Common to both French, Annamites is conviction that any strong centralized Chinese Government would for geographic, historic and economic reasons regard IC as field for expansion and that super-position Communist ideology will greatly strengthen this urge. Thus all but small minority hardened Communists in Viet Minh fear Chinese aggression.

However, both French and natives split into resisters and appeasers which affects attitude toward possible recognition of Chinese Communist Government. Other factors obscuring all shades Vietnam opinion are desire for independence, hatred of French and suspicion

¹⁷ Field Marshal Luang Pibul Songgram, Prime Minister of Thailand.

¹⁸ Indochina.

anti-Communist campaign will be used as excuse deny or delay independence.

While both French and vernacular press have in recent months devoted much space to Chinese situation in general and various foreign rumors re recognition policy of Western Powers, there has been little indication of local opinion on merits recognition.

Thus following opinions on reaction of various elements Indochinese public are largely conjecture:

(a) Recognition withheld.

1. In French opinion generally favorable but with minority, chiefly among business interests critical because of desire save investments and trade, and another small group appeasers fearful withholding recognition might incite invasion IC.

2. Vietnam opinion (i.e., supporters Bao Dai government and non-Communists in general) also generally favorable because would interpret non-recognition as determination stop spread Communism and support Bao Dai against Viet Minh.

3. Viet Minh (more exactly Communist and Communist-controlled elements thereof) opinion critical but would hesitate exploit due to general anti-Chinese sentiment.

(b) Recognition by chief powers.

Reaction generally reverse of (a) by all elements.

French official circles are particularly fearful activities and influence Chinese Communist consuls and other officials who would flock to IC after recognition. French criticism would be directed against US for forcing unwise policy on reluctant France. Vietnam opinion would fear recognition meant abandonment of effort stop spread Communism particularly by US and initiation French negotiations with Ho Chi Minh.^{18a} Viet Minh would rejoice and be strengthened in hope eventual victory. Large Chinese minority would rapidly climb on Communist bandwagon, movement already in progress.

(c) Recognition withheld by US but granted by other powers including France.

Such development would greatly confuse public opinion. French officials would defend French action in public but express doubts in private. Certain French, both far right and left, would rejoice at US diplomatic defeat. Others would hope for diplomatic and trade advantages in conjunction British. Vietnam opinion would support US due to suspicion motives French; Viet Minh would be hard-pressed to find line attacking both France and US. Local Chinese in difficult spot.

^{18a} Indochinese Communist leader.

(d) *Recognition withheld by US and France but granted by UK and others.*

French opinion generally favorable with sharp criticism of British as interested only in profits and saving Hong Kong. Probable interruption of present extremely close relations British-French civil and military officials this area. Vietnam opinion preponderantly favorable. Viet Minh vociferously unfavorable. Local Chinese community somewhat encouraged.

Circumstances of recognition and method presentation to public might influence public opinion particularly in (b).

ABBOTT

893.01/8-2449 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, August 24, 1949—4 p. m.

[Received August 24—8:13 a. m.]

2033. Following are principal factors which may be expected influence Philippine public and governmental opinion on question recognizing Chinese Communist regime:

1. Fear of communism has during past year been reinforced by spread of knowledge that Hukbalahaps are Communist-led and has been sharpened by recent Communist successes on Asiatic mainland (Depcirtel August 19, 5 a. m.).
2. Widespread distrust of the large Chinese colony in the Philippines and of activities in which they would engage after their home areas fall to Chinese Communists. Coupled with this is official realization that Communist-controlled Chinese Embassy at Manila might be expected to direct and protect activities Chinese Communists in Philippines.
3. Philippine tendency to follow lead of others, and preferably lead of US, in foreign affairs.
4. Wish of persons in Philippines profiting from trade with China to ensure continuance such trade.
5. Desire given expression by leftist newsmen that Philippines maintain ties with their Asiatic neighbors on mainland.
6. Opposition's pressure on Government to follow an "independent" foreign policy.

We believe that from standpoint Philippine interests, first three considerations are the more compelling. Accordingly, we believe Philippine Government will probably desire withhold recognition for some time and that it will in the main be supported by public opinion in such stand. This would be particularly true if US, UK and France also withheld recognition. If recognition by principal Western Powers including US is forthcoming within reasonable time, Philip-

pine Government and people would probably accept the realities, albeit with some misgivings, and Philippines doubtless would likewise extend recognition. If England and France join with other powers in according recognition while the US shows firm disposition withhold it, Philippine policy of non-recognition would come under strong fire, particularly from critics of the government who might be expected allege that the American dog is wagging the tail of Philippine foreign policy. At same time influence elements desiring engage business as usual would be increasingly felt. US, nevertheless, might be able prevail upon Philippine Government withhold recognition, at least for some time, but efforts due would not necessarily prove successful. This connection Embassy desires point out element of unpredictability posed by fact that President Quirino who is his own Secretary Foreign Affairs is prone make and announce impulsive and ill-considered decisions and to stand by them stubbornly once they have been made public.

I have sounded out Ambassador Romulo¹⁹ on this subject, particularly from standpoint implications for UN. He is apprehensive that question will come up there and is keenly aware difficulties likely ensue should another Communist power get seat on Security Council as well as voice in GA. He stated that he intends brief President Quirino on all aspects of the problem and that he himself will cooperate closely with US in UN.

COWEN

893.00/8-2649 : Telegram

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

Moscow, August 26, 1949—6 p. m.

[Received 8:19 p. m.]

2155. Policy proposed paragraphs 13-16 Shanghai's 2796, July 16, from Cabot²⁰ (repeated Moscow as Department's circular airgram July 25²¹) impresses this Embassy Middle East [garble] as sound approach to problem Communist China. Policy of dignified aloofness (and particularly economic detachment) from affairs Communist China would not only have advantages cited in reftel and in Embtel 1620, June 27²² on same subject but would enable US make more concentrated and effective effort promote political and economic stability in important Asian areas where we still have good chance stem

¹⁹ Philippine representative to the United Nations.

²⁰ Vol. VIII, "Political and military situation in China", chapter VI.

²¹ Not printed.

²² Vol. VIII, "Political and military situation in China", chapter V.

Communist tide (India, Japan, southeast Asia and Moslem Middle East). Manchurian developments would seem strengthen case for taking calculated risk of letting Chinese Communists "stew in own juice" (Embtels 2025, August 13²³ and 2092, August 19²⁴).

It is recognized that it may be difficult for reasons cited paragraph 11 Shanghai's 2796 to persuade British and French follow this general policy but believes maximum effort should be made in present negotiations London bring British along with US on concrete program for joint control exports to China (Department's infotel August 2 [7]²⁵) along lines already operating vis-à-vis iron curtain countries.

I believe important [to] separate problem basic US policy re Communist China from recognition question. By viewing latter as primarily technical matter depending on existence of formally established Chinese Communist regime having effective control over country, and publicizing this as our attitude, we would have advantage following well-established historical precedents (current examples of US realistic recognition policy being ARA²⁶ area practice and established diplomatic relations Balkan satellites), and at same time would avoid expenditures disproportionate energies on what is essentially formalistic and secondary aspect of Chinese Communist problem. I have in mind present difficulties our attempt keep united front on China recognition question and prospective UN representation complications.

Foregoing is of course based on assumption (which appears justified from admittedly incomplete information available here) that Nationalist Government will continue to disintegrate territorially and otherwise at present rapid rate and that Communist regime will quickly fill void.

It may be argued that long-delayed recognition will help sustain morale non-Communist elements and also give US a better bargaining point in eventual negotiations with China Communist regime. I feel that if withholding recognition is only support we can give such elements in foreseeable future, it is better not create false hopes which can only lead to bitter disillusionment. Re second point, even should we be able use recognition as apparently effective negotiating weapon for protection US interests China (which is doubtful in view probability other non-Communist governments will not wait for US), I wonder on what basis can be assumed that understandings so reached will be implemented by Mao regime. Recognition "without illusions" at appropriate time would appear sounder course.

²³ *Post*, p. 961.

²⁴ Vol. VIII, "Political and military situation in China", chapter VI.

²⁵ Not printed.

²⁶ *American Republics Affairs*.

This connection believe it worth while engage in hindsight speculation on advantages which might have accrued US if we had extended recognition Soviet regime within reasonable period after success revolution. On optimistic side if US representatives had been in USSR during formative stages creation new state (before solidification of power under Stalin) they might conceivably by their presence have influenced, to at least some extent, course of events in manner more favorable to US interests than was actually possible under US non-recognition policy. (Because of our long-standing cultural and economic ties with Chinese people, more favorable circumstances for exercise such US influence could arise in Communist China than were ever present in Russia). On pessimistic side, established US-Soviet relations early twenties would certainly have enabled US Government and people obtain clearer understanding of profound dangers for Western democratic world implicit in developing Soviet regime. As to presumed benefits to US of agreements under which US eventually recognized USSR in 1933, the record certainly affords weak argument for those who would use long-delayed recognition as a bargaining device in China.

I appreciate that policy toward Communist China formulated on twin bases "dignified aloofness" and "diplomatic recognition" might present certain practical difficulties and even appear superficially contradictory. I believe, however, that long-range benefits of such policy to US and non-Communist world (as roughly depicted herein) are so strong that it would receive wide public approval and support if accompanied by a frank, carefully worked out and appropriately timed public relations program.

Sent Department 2155, repeated Nanking 93, Shanghai 19.

KIRK

711.41/8-2649 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

[Extracts]

LONDON, August 26, 1949—8 p. m.

[Received 8:02 p. m.]

3410. During the final round-up before my departure I discussed following subjects with Bevin:

(2) China. We went over the general position with respect to Communist China and spelled out the differences between the British

attitude and our own. I pointed out that it was our feeling that a new Communist government in China could be more forcibly convinced of its dependence on western economic assistance and normal economic and financial relationships by withholding such assistance and only granting help in consideration for specific concession. Bevin understood this, but stated as British belief that it would be wiser to remain in China, maintaining trade relations and establishments in order thus to influence the Chinese Communists in our favor. He felt that a great mistake had been made at the time of Sun Yat-sen revolution²⁷ by hanging on to the Manchu dynasty and believed that in the long-run it was better to stay in China and attempt to influence developments. He said that UKG²⁸ was seriously considering escorting merchant ships up to the limits of territorial waters in spite of Nationalist Government blockade.

DOUGLAS

893.01/8-2949 : Telegram

The Consul at Batavia (Abbey) to the Secretary of State

BATAVIA, August 29, 1949—1 p. m.

[Received August 29—9:14 a. m.]

710. Reference Department's cirtel August 19, 5 a. m. From sampling, following believed will be local reaction.

a. If recognition withheld by US, UK, France, prestige Western Powers will rise.

b. If recognition withheld for reasonable length time, local reaction will depend upon circumstances intervening but even so would have somewhat deleterious effect.

c. If other Western Powers recognize but US shows firm disposition not to do so, US prestige will rise sharply.

If US recognizes, will be believed locally due to materialistic objectives and will adversely affect any anti-Communist program which might be set up here. Various locals think British will recognize Communists because of Hong Kong, but believe this a mistake.

If Chinese Communists recognized, it will give great spurt to Chinese Communists here. One Chinese editor in Surabaja (Chinese Communist stronghold) commented to member Consulate General staff, "When and if the Western Powers recognize the Communist

²⁷ Sun Yat-sen, founder of the Kuomintang and leader of the revolution of 1911-1912, was provisional President at Nanking, January 1, 1912.

²⁸ United Kingdom Government.

government, Chinese locally will support it and adopt the Chinese Government line.”

ABBEY

893.00/9-149 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, September 1, 1949—1 p. m.
[Received September 1—10:02 a. m.]

3503. Embassy's despatch 1357, August 17, 1949, transmitting documents re China. Re last paragraph despatch under reference, Strang²⁹ has now informed me that policy contained in memorandum dated August 15 from FonOff³⁰ has been approved by Ministers concerned and can be considered official British policy.

HOLMES

893.00/9-149 : Telegram

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

NANKING, September 1, 1949—6 p. m.
[Received September 1—7:38 a. m.]

1976. In conversation with Indian Ambassador, latter undertook explain attitude South Asian countries toward Communist revolution in China with particular reference recognition anticipated Communist central government. Panikkar said that quite aside from ideological aspects of communism or acceptability of Chinese Communist standards of democracy, successful revolution of CCP had made profound impression on Asiatic peoples and was changing face of Asia whether we liked it or not. Mao Tse-tung and Chinese Communists, he said, have tremendous prestige among people of Asia not because they are Communists but because of their success in establishing a new order and in defying West. Consequently any responsible government in southern Asia, which already and in every case (with possible exception of Philippines) is on defense in its own country for pro-western ties, must be very careful not to assume open hostile attitude toward new Chinese government born of latest phase of Chinese revolution. It is this attitude which explains tepid response to latest Philippine suggestion for South Asian Union. It is this attitude which will condition South Asian governments' policy of recognition

²⁹ Sir William Strang, British Permanent Under Secretary of State for Foreign Affairs.

³⁰ *Ante*, p. 57.

of Communist China regime. Panikkar pointed out that India and Southeast Asian countries have no vested interests, no prior treaties, which might obstruct path to early recognition. They are free to start from scratch with new Chinese government.

Panikkar agreed that it would be impolitic for any non-Communist government to appear anxious to recognize new regime or to make first step in that direction. He said that he had no intention of traveling to Peiping after formation of government but that he would be available in Nanking for any first approach Communists might wish to make. He added that he was sure his government did not wish to take any steps along road to recognition which would embarrass or compromise British Commonwealth. Nevertheless I received definite impression that, if Panikkar's recommendations govern, India will establish relations with Communist China shortly after Central Government established Peiping.

Sent Department; repeated EmbOff Canton 812, New Delhi 10.

JONES

893.00/9-449 : Telegram

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

NANKING, September 4, 1949—1 p. m.

[Received September 5—4:38 a. m.]

2000. We like Moscow's thoughtful comments⁸¹ on dual China policy of "dignified aloofness" and "diplomatic recognition" and do not find them unnecessarily contradictory. On question of basic policy Embtel 1994 of September 3⁸² concurs. On question of recognition we agree little to be gained by refusal to recognize new Communist regime on purely political grounds. Policy of reserve on question of recognition which we have consistently recommended has been more one of tactics than policy. We continue to feel that new Communist government should be given ample time to make first approach to US and other established governments to obtain formal recognition. This is more than question of protocol; it is part essential education of Chinese Communists who in their present arrogant, confident mood are themselves naming conditions on which they will extend recognition to old and established governments of world. Out of modern Chinese history involving foreign concession areas and imposed foreign legations, there has grown false conception that establishment of diplomatic relations with China is entirely for benefit of foreign state. There is also present in CCP thinking "middle king-

⁸¹ See telegram No. 2155, August 26, 6 p. m., p. 66.

⁸² Vol. VIII, "Political and military situation in China", chapter VI.

dom" tradition which reinforces their assurance of indispensability to rest of world.)

We feel that our relations and those of our allies with China will be on much sounder basis if Chinese Communists show by their approach that they have finally recognized importance to China of formal relations abroad. Problem is to keep some of our allies from appearing too eager to recognize new government, but with almost normal complement of chiefs of mission in Nanking, bored with inactivity and anxious to regularize their own status, this will be difficult of achievement. Withdrawal of chiefs of mission would, of course, ease this problem but most of them appear to have wide latitude in their government's instructions and are disinclined to move ahead of French and/or British.

In any event US tactics should be to await Communist approach. There is ample opportunity for them to make contact with our Consuls in Peiping, Tientsin, Shanghai or with Embassy officers Nanking. If such approach is made, I assume we would not refuse to talk but would, on contrary, welcome opportunity to report new government's views and obtain authority to continue discussions informally. Whether formal recognition would result could be ascertained only through medium of such discussions at which time US conditions for recognition would be advanced. Certainly at present it is difficult to see any basis for establishment of normal diplomatic relations between US and Communist China. However, that should be left to developing events and not prejudiced in advance by negative policy decision. Sent Department; repeated Moscow 63.

JONES

893.01/9-649 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, September 6, 1949—midnight.

[Received September 7—11:12 a. m.]

1025. 1. In view wide differences opinion in India re developments China, and varying and frequently conflicting factors responsible for these differences, we are probably guilty of over simplification in endeavoring describe in framework [of] telegram probable effect on Indian public opinion if Western Powers should or should not recognize Communist China (Depcirtel August 19, 5 a. m.).

2. We believe, however, majority present dominating elements in India, including leaders of government and of Congress Party as well as most important government officials, would be more critical of Western Powers if latter should withhold recognition than if recog-

dition was accorded. This majority controls most of press and other media for influencing public opinion. Criticism of US would probably be even wider and more sharp if it should withhold while UK and France recognized.

Although there is some concern among members this majority lest Communist China eventually join with Russia in drive to communize Asia, this concern is dulled or offset by various factors including belief based in part on widely circulated statements emanating largely from US and UK sources to effect communism in China will prove to be incompatible with Stalinism and after first flames have subsided it will become benign constructive influence which will make China at least fairly comfortable Asian neighbor controlled neither by West or Russia. Extreme nationalists and anti-white groups, as well as those trained to believe white colonialism is world's chief evil, are inclined to rejoice at Communist victory in China even though Communist triumph may add to prestige and strengthen Communists in Asia. They would be particularly shrill in criticism if Western Powers should refuse "acknowledge their defeat and face realities of situation" by recognizing Communist China. Other members this majority enthusiastically, although vaguely pacifist, believe recognition of Communist China by Western world would strengthen cause of world peace. They would therefore be certain to criticize withholding of recognition.

3. Among dominating elements of India there is, however, minority including most high military officers and even members Congress Party which regards Communists in China, as elsewhere, irreconcilable enemies of non-Communist world; which looks to US and UK as leaders in world struggle against international Communist movement; and which would probably take attitude that Western Powers by establishing diplomatic relations with Communist group that has taken advantage of war torn and fatigued China to conquer it by force are blurring the clarity their cause, are diluting quality their leadership, and for sake trade advantages or because unwillingness frankly face disagreeable international situation are trying hide even from selves true nature of regime which they are strengthening by recognizing. Members this minority would probably also draw conclusion that by applying one yardstick to Western Europe and another to Asia, Western world was betraying fact that its avowed interest in welfare and future of Asia was not over-deep. This minority has limited means of propagating its views; therefore its voice not likely be loud.

4. Communists and fellow travellers, while limited in number, have considerable influence particularly among half-baked and maladjusted

"intellectuals". They will criticize vociferously any course taken by Western powers. Indian Socialists, most of whom have not yet learned that [*what*] European Socialists now know from bitter experience, will probably be more critical at withholding than at granting of recognition.

5. Even many members majority referred to in paragraph 2 above not likely give much credit or unqualified praise to Western Powers for according recognition. Some will accompany approval with expression hope West, particularly US, has learned it can no longer successfully intervene in Asia; others will suggest Western Powers have sold their so-called principles for trade advantages or for other opportunistic gains; others will merely gloat over "necessity Western Powers at last recognizing their eclipse in Asia."

6. Overwhelming majority people India have as yet little knowledge or interest foreign affairs. Although surface this vast human sea might be ruffled by breezes of propaganda, its depth not likely be affected by such matters as recognition Communist China by Western Powers. Although future India will eventually be decided by these at present politically illiterate masses, they will have no sentiments to voice re subject this telegram.

7. We believe GOI will be prepared recognize Chinese Communist regime as soon as latter has established firm control of China, and has eliminated all effective organized Nationalist resistance provided that regime indicates readiness to enter into relations with India. GOI will probably consult US, and almost certainly UK and other members Commonwealth, before taking formal steps to recognize. Under pressure from UK and other members Commonwealth it might, with reluctance, delay recognition for short period. GOI hopes Communist China will take more friendly attitude toward Asian powers than it has thus far displayed toward West, and it will probably desire respond fairly promptly to gesture on part Chinese regime made on basis special relationship among Asian peoples. Our impression is that Panikkar, Indian Ambassador to China, hopes obtain special position for self in China, and would like for India assume leadership in matter recognition.

Above our present impressions; developments may, of course, sharply change outlook dominating elements of country as, for example, Chinese Communist activities in Tibet and Burma, hostile attitude towards Indian Govt, or systematically discourteous treatment of Indian representatives.

HENDERSON

893.01/9-749 : Telegram

The Consul General at Singapore (Langdon) to the Secretary of State

SINGAPORE, September 7, 1949—5 p. m.

[Received September 9—9:43 a. m.]

254. We believe here sentiment large alien Chinese population Malaya, Hong Kong and commercial interests those colonies will figure largely in UK approach to question of recognition (Depcirer August 19), hence expect final decision will coincide those interests and have their support. We thus gauged views, wishes main elements concerned.

Governor here who was pre-war governor Hong Kong told source his Government would make representations London vs. any recognition of Chinese Commie government but in same breath said if local Chinese business interests made strong representations to him over cutting off trade with China as when Dutch cut off trade with Indonesia he would in turn make representations to London, adding, "will trade with Commie China if we can. Britain doesn't want drop Iron Curtain. After all Britain is now increasing its trade with USSR itself."

President Singapore Chamber Commerce (European) told source if British Government decided to withhold recognition for national good, British business in Malaya would go along but "you may be sure British business in Malaya and Hong Kong will wish continue trade with China under Commie Government. If trade with China ceases, trade between Malaya and Hong Kong will also scale down and present state business can hardly stand further adversity."

Alien Chinese businessmen most of whom now have local or world-wide interests have no strong views on recognition. All wish trade with China to continue but seem prepared write it off if recognition prejudices their security and well being. Imports ex-China worth about 50 million dollars comprise only 6 percent total, exports not quite 3 percent. About half alien Chinese in Malaya still have family ties in China and are anxious lest unable continue remittances to relatives but not preparing do anything if channels cut off owing physical or political causes.

Chinese Foreign Office representatives here admit wide apathy their people Malaya toward matter but believe British Government would be subjected heavy pressure by large Fukien community with its many big merchants and leaders which is under influence Tan Kah-kee (spoken of as Overseas Minister in future Commie coalition government) if it withheld recognition.

Question has not come up [apparent omission] suggesting bearing on internal security Malaya, Hong Kong unimportant. As champion

of containing communism in SEA and without any illusions re Chinese Communism, MacDonald³³ unlikely barter recognition cheaply. His Foreign Office deputy said, "I suppose recognition will come in fullness of time and we are thinking of risks of Commie Consuls in our midst." Chinese ConGen thinks early recognition would tend prolong terrorism because some waverers might interpret it as appeasement of Commie guerillas.

I estimate Malaya as whole will favor and urge recognition by UK but will adjust itself to non-recognition if practical grounds therefor. What France may do might not even be noticed and anyway would have little effect owing French low moral position among Asians. Non-recognition might please now liquidated Kmt but will probably not attract wide interest. One Chinese diplomat thinks non-recognition would have minor moral influence since having damned Nationalist China in White Paper we would be also damning what was left of China. Another hopes we may find way of staying behind curtain to give hope to our friends there.

LANGDON

893.01/9-949

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] September 9, 1949.

Participants: Mr. Dening, British Foreign Office, Assistant Under-Secretary for Foreign Affairs in Charge of Far Eastern Matters

Mr. Meade, Counselor, British Embassy

Mr. Ford, First Secretary, British Embassy

Mr. Butterworth, FE; Mr. Merchant, FE; Mr. Freeman, CA; ³⁴ Mr. Magill, CA; ³⁵ Mr. Wright, CP ³⁶

With regard to the question of whether to accord recognition to any Chinese Communist government which may be established, Mr. Dening stated that there was a certain amount of internal pressure in England for recognition; that such pressure came from both the far-leftists and from certain commercial interests in London; but that the group desiring early recognition did not include Mr. Bevin. He indicated that the official U.K. position remained the same as set forth in the memorandum from the Foreign Office dated August 15, 1949, entitled

³³ Malcolm MacDonald, British Commissioner General in Southeast Asia at Singapore.

³⁴ Fulton Freeman, Assistant Chief of the Division of Chinese Affairs.

³⁵ Robert N. Magill, of the same Division.

³⁶ Robert B. Wright, of the Division of Commercial Policy.

"China"³⁷ which subsequent to its transmission to our Embassy in London had received full ministerial approval. The important point, Mr. Dening emphasized, was that the U.K. and the U.S. should continue close and continuous consultation on the problem. He stated that, from the strictly legal aspect, the difficulties of non-recognition eventually became greater than the difficulties of recognition, but he added that this matter would seem to require a decision on a political rather than a legal basis. Mr. Dening stated that he assumed that the Soviets would recognize a Chinese Communist government as soon as one is established.

Mr. Butterworth mentioned that some months ago the Department had taken the question up with several interested foreign governments, including the U.K., on the following basis: (1) no problem of recognition had yet arisen as no central Chinese Communist government had yet been established; (2) following the establishment of such a government, the interested foreign powers should by no means be hasty in according recognition but should leave the initiative up to the new government; and (3) the interested powers should agree to consult with each other prior to taking any steps toward recognition of such a government and should bear in mind how fallacious would be an approach based on the theory that the first come would be the better served. Mr. Butterworth indicated that, of the various governments approached, only India and Australia appeared to hold divergent views.

Mr. Dening stated that, with regard to India, he felt that Ambassador Panikkar in Nanking was adopting a somewhat unrealistic view toward the question of recognition which might not necessarily be backed up by his Government. He pointed out, however, in view of India's desire to assert itself as the principal Asiatic power, that India might take an independent stand in this matter. As to Australia, Mr. Dening stated that that Government was of the opinion that there was nothing to be gained by delaying recognition of a Chinese Communist government, but that it was nevertheless in general agreement over the desirability of consulting with other powers prior to taking any action.

Mr. Butterworth stated that the Department had recently circulated its missions in Southeast Asia on the question of probable reaction in that area to recognition of a Chinese Communist government by the Western Powers, and that the replies so far received indicated without exception that early recognition by the Western Powers would cause adverse reactions in Southeast Asia. Mr. Dening commented that, whether early or late, recognition would have adverse consequences.

³⁷ *Ante*, p. 57.

Mr. Butterworth said that in the Department's view early recognition would carry special disadvantages for Southeast Asia.

In reply to Mr. Dening's statement that, when the question of recognition arises, the interested powers should expect assurances with regard to their rights and interests in China, Mr. Butterworth pointed out that the Communists have already indicated publicly that they will consider certain treaties as invalid. Mr. Dening added that the U.K. would certainly not accord recognition to a government which stated in advance that it would not recognize its international commitments.

Mr. Merchant inquired whether the British Government had given full consideration to the likelihood that the Chinese Communists would demand, as a pre-condition to the establishment of relations, the withdrawal of recognition from the National Government. Mr. Dening replied that in his opinion the Communists would not accept *de facto* recognition and that the according of full *de jure* recognition would of necessity require the withdrawal of recognition from the National Government. He added, however, his opinion that when the time came to recognize the Chinese Communists the National Government would have long since ceased to be a major factor in the Chinese scene. Mr. Dening indicated that internal politics and pressures, both in the U.S. and the U.K., might have their effect on the questions of whether and when to recognize a Chinese Communist government, but that he felt there was no disagreement over the present watchful-waiting policy and the desirability of close and continuous consultation.

In adding a footnote to the conversation, Mr. Butterworth stated that he could not imagine any situation arising which would cause the U.S. to make haste in recognizing a Chinese Communist regime as that would be tantamount to acceding to blackmail. Mr. Dening replied that, for his part, he did not know whether internal pressure for recognition within the U.K. would develop to the point where the Government could no longer resist. He mentioned, for example, the situation which might arise in China with regard to British officials and other subjects should recognition be long delayed. Mr. Butterworth stated that in his opinion the U.S. would probably not give in to such blackmail tactics calculated to force us into recognizing the Chinese Communists but would undoubtedly make every effort to reduce our hostages to fortune by continuing to emphasize the evacuation of our nationals from China.

(The conversation then turned to a discussion of economic relations with Communist China.⁸⁸)

⁸⁸ See memorandum of September 9, p. 871.

893.01/9-1049 : Telegram

The Ambassador in Burma (Huddle) to the Secretary of State

RANGOON, September 10, 1949—noon.

[Received September 10—9:22 a. m.]

378. GOB was pleased at inclusion mutual consultations friendly powers re China before individual action taken and desires to continue arrangement as long as practicable. (Deptcirtel August 19, 5 a. m.) On question recognition Communist China government, Foreign Minister is noncommittal. He would like, I believe, to follow American and British lead but realizes difference approach between USA and UK, with joint action therefore unlikely. In absence similarity US-UK approach, Burma would, if possible, be more likely follow British lead and would, I think, be relieved if British accorded early recognition.

This problem crucial for GOB and it could scarcely be expected now to make binding commitment. Burma's action on recognition may be expected to be opportunistic, in all likelihood if CP considered, and issue may be so doubtful when it eventually arises that GOB leaders might, as has been done in past, resort to religious soothsayers for advice and counsel. This last suggestion made in all seriousness.

Public opinion in Burma on recognition question is undecided and will follow government lead. Ba Swe Socialists undoubtedly favor prompt recognition. More conservative circles clamor for policy of friendly Burmese neutrality between countries representing Communist and Western democratic ideologies, demanding policy which will always result best interests of Burma.

While Burma would, if able, probably follow British lead, GOB nevertheless might be forced by sudden impact Chinese Communism in borderland areas to take early independent action in favor Chinese Communist government. Burma could expect little or nothing by way of material aid from UK or India or any other sources in an extremity and could not successfully resist by its own unaided effort an aggressive Chinese Communist movement against it.

If Chinese Communists make no gesture toward Burma as is rather to be expected at least for a considerable period of time, Chinese Communist advance to the Burma border would nevertheless probably result in strengthening pro-Chinese elements and weak Communistic movements this country, which also would imperil government's position in attempting a non-recognition policy. (Foreign Minister told me he expects General Lu Han,³⁹ who reportedly just returned to Kunming after seeing Chiang Kai-shek, to attempt to make deal with

³⁹ Governor of Yunnan.

Communists. If this occurs, it might relieve Burma temporarily at least from immediate Chinese Communist menace and permit Burmese delay in squarely meeting recognition issue).

In substance, I expect Burma to follow a British lead in this question to the extent that the GOB finds it practicable to do so, but developments might force GOB take independent action favorable Chinese Communists. Burma would gravely consider American policy non-recognition but would not be decisively influenced by it.

HUDDLE

893.01/9-1349 : Telegram

The Ambassador in Korea (Muccio) to the Secretary of State

SEOUL, September 13, 1949—7 p. m.

[Received September 13—11:59 a. m.]

1144. Re queries posed third substantive paragraph Deptel 755, September 8,⁴⁰ following is our estimate.

a. ROK⁴¹ officials and public opinion will wholeheartedly welcome withholding by US and other principal Western Powers of recognition of any Communist regime or regimes which may be established in China.

b. Recognition at any time of Chinese Communist regime by chief Western Powers would be most unfavorably regarded by ROK officials and people, would further confuse Korean public opinion re Western policy toward China and might impair determination of Korean Government and people to fight Communist aggression.

c. Firm disposition on part US not to recognize in face UK or French recognition would receive utmost approbation on part ROK officialdom and public opinion.

Irrespective of UN developments, anti-Communist sentiment in ROK is so strong and pronounced, in light of persistent Communist endeavors absorb South Korea, that there is no prospect of Korean Government's according recognition to any Chinese Communist regime. Chinese Communists regarded here as scarcely different from North Korean Communists, usually part of Moscow apparatus for achieving Communist world-domination. Both Chinese and Korean Communists considered to constitute active threat to security ROK.

President Rhee⁴² and his Cabinet, supported in large part by public opinion and press have consistently evinced sympathetic attitude toward Chinese Government in its fight against communism. Rhee's receiving of Chiang and recent dispatch Korean Ambassador to

⁴⁰ Not printed.

⁴¹ Republic of Korea.

⁴² Syngman Rhee, President of the Republic of Korea.

Canton clearly reflect attitude Korean Government. It is considered view this Embassy Korean Government will continue accord recognition present Chinese Government as long as it continues in existence.

MUCCIO

893.01/9-1349

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 13, 1949.

Subject: Conversation with Mr. Bevin on the Far East.

Participants: Mr. Bevin

Mr. Dening

Mr. Acheson

Mr. McGhee ⁴³

Mr. Butterworth

Ambassador Jessup

Ambassador Douglas

Mr. Satterthwaite ⁴⁴

[Here follows a survey of views on Southeast Asia, India, and Japan and discussion of the idea of a Pacific pact. See memorandum of September 16, volume VII, "The policies of the United States with respect to the East Asian-Pacific area . . .".]

China. I said that we had prepared a memorandum on the China situation which I thought expressed our views so clearly, that I would read it.

[Here follow paragraphs read from telegram No. 1994, September 3, 1949, from the Counselor of Embassy in China at Nanking, printed in volume VIII, "Political and military situation in China," chapter VI.]

To reiterate, I said that as far as recognition was concerned, there should be no hasty aid and that nobody should gain any favors from the China Communists by ready recognition or similar moves. We would insist that the Communists recognize international obligations in full as a prerequisite to recognition. We thought the United Nations might pick up the principles of the Nine Power Treaty ⁴⁵ without mentioning it by name, but to reiterate the open door policy and the non-fragmentation of China. We did not think there was any need for recognition until the Communist Government actually does control China and there are many here who point out that they do not as yet. We strongly hope the Atlantic Pact countries will con-

⁴³ George C. McGhee, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs.

⁴⁴ Joseph C. Satterthwaite, Director of the Office of Near Eastern and African Affairs.

⁴⁵ Signed at Washington, February 6, 1922; *Foreign Relations*, 1922, vol. I, p. 276.

sult fully and carefully and concert policies on recognition of the Chinese Communist Government. We are mindful that Formosa complicates recognition. We don't feel there is any point in engaging in economic warfare but we think China should pay its way (which it has not been doing for 10 years) and that we should not extend any extra facilities to a Chinese Communist regime. We hope that controls on 1A items will be set up right away and stand-by controls on 1B items be arranged so that they can be enforced immediately. I said we were depressed on chances of doing anything about Formosa. The United Nations Commission doesn't seem practical.

Returning to China, Bevin said the British were not in a hurry to recognize but that they have big commercial interests in and trade with China and were not in the same position as we were relatively or absolutely. Bevin said the Foreign Office had told the British Community to stick and could not now tell them to leave. Also the British had to keep an eye on Hong Kong. He said that reports indicated that the fact that the British are hanging on is creating a good morale position in China for them. Bevin reported strongly that the British did not want to get out, that they have left their consuls, having in certain areas taken over representation on behalf of the United States, and intend to stay. He said that by staying he did not think it would complicate the recognition problem any further. Denning said that the only difficulty involved in staying is that the Communists can take the initiative and say to the British either recognize us or get out. Bevin said that if the Communists acted that tough the British would refuse to recognize, but he thought the Communists would be more subtle. If they avoided overt action, the British would stay on without immediately recognizing the government but continue relations with the Chinese Government as best they can anyway. Mr. Butterworth observed that the Communists have stated they intend unilaterally to abrogate the various treaties regardless of the provisions for termination and we regard this as intolerable. It was possible that denunciation of the treaties might include denunciation of those respecting Hong Kong. Mr. Bevin said he could not imagine Russia advising China to abrogate treaties. Russia had always been careful about that but if such proved to be the case, it would be intolerable. He did not think that the Communists will attack Hong Kong directly. I said they might attack Macao, which was the same kind of problem. Mr. Bevin made no effort to field this ball. Mr. Bevin said the British can defend Hong Kong from external attack, economic boycott or internal trouble. I said that who controls China is very important to us as the State Department has to prove that the Communists do control it in the face of many allegations that they do not. What does China say?

Have the Communists consulted their own people? Do the Chinese think that the Communist party controls them? Mr. Bevin said he was afraid that by being too obdurate we will drive the Chinese into Russian hands, but that by playing a careful role we can weaken Russia's grip. I said that we were between two courses, one of which was to conduct against a Communist regime hostile operations between China and the USSR, the other was to play for a split between China and the USSR. If we agree that the split is the wisest course, then how do we do it. We should be careful, but we doubt if recognition is a strong card in keeping China out of Russian hands and they will be there anyway. Also recognition would have a discouraging effect throughout Southeast Asia. Denning said that on trade if others follow, the British would impose 1A but they were not ready to extend it to 1B items or to approach other governments on 1B. The Board of Trade is reluctant to set up controls but might go along with a gentlemen's agreement, 1A items would be all right. Bevin said he thought they should do one thing at a time; that imposition of controls on 1A items had left a nasty taste in Europe. Mr. Butterworth said that the point is are we going to have China's trade under control or not. There are quasi-military items on 1B. Mr. Bevin said he would go ahead on 1A items and talk about 1B when he gets back.⁴⁶

Bevin then took up Hong Kong. He said the question was whether the British should refuse to negotiate under any circumstances, or whether they should negotiate under certain conditions. Hong Kong may come up in the United Nations and at one time it had been suggested that it might become an international port. If this solution were acceptable, why would it not be equally acceptable to give Hong Kong to Communist China? Certain leases expire on the new territories in 1997. While the British might discuss the problem with a friendly China at sometime in the future, they could not do so at present. On the other hand, they would not want to make an issue or publicize the fact that they would not negotiate now. The door is not bolted for all time. If there is aggression, the British will resist and go to the United Nations. Mr. Bevin then read the following statement of British policy, "The conclusion which we reach is therefore that, while we should be prepared to discuss the future of Hong Kong with a friendly and stable Government of a unified China, the conditions under which such discussions could be undertaken do not exist at present and are unlikely to exist in the foreseeable future. Until conditions change, we intend to remain in Hong Kong, and should so inform other Commonwealth Governments and the United States, while refraining in public from pronouncements which exacer-

⁴⁶ For further correspondence regarding trade controls, see pp. 1002 ff.

bate our relations with China." I said that seemed sound and reasonable, and Bevin said that our agreement would be encouraging to his Government.

Bevin then reiterated that there would be close consultation with us on recognition and that they would proceed with caution. Bevin said that one difficulty was that Britain would be following one, and the United States another course. The British may follow slightly different steps with regard to their consuls and the trade position, but our differences should [not?] be with malice aforethought. I said I thought we should make a clear distinction between policy and situation. The British may hold on longer because of their situation and we less longer because of ours, but division of policy is in error. The Communists would be delighted if they could drive a wedge. We did not want that. Bevin again said that the difference was in tactics and not in objectives and I agreed.

Jessup discussed the probable presentation by the Chinese Government to the U.N. General Assembly of a resolution (1) denouncing the Soviet Government for violation of the Sino-Soviet Treaty of 1945;⁴⁷ (2) calling upon the members of the U.N. not to recognize the Communist regime in China; and (3) calling upon them to render support to the Nationalist Government. Jessup stated that we had indicated to the Chinese that the decision rested with them as to whether or not their case should be presented to the G.A. but that they would encounter grave disadvantages in the presentation of a resolution involving the two latter points specified above. We had, however, indicated an inclination to support in principle a resolution based on the first proposition only, but made it clear that the character and degree of our support would depend on whether or not the Chinese case were based on strong evidence. So far this evidence has not been presented to us.

If the Chinese case should be presented to the G.A., Jessup suggested that we might wish to deal with it by introducing a resolution which would reaffirm the doctrine of the "Open Door" and the maintenance of the integrity of China as set forth in the 1922 Treaties. It might also be possible, if the Chinese themselves were prepared so to request, to set up a U.N. commission to supervise developments in Formosa until the status of that territory should be finally settled. We would recognize of course that, however the case were handled, the Russians would use it as an excuse for "mud slinging". We would continue to keep in touch with the British on this matter and endeavor jointly to keep the Chinese from going too far and from handling the case in a manner which would embarrass all concerned. Bevin said the Chinese had told Strang about what they had told us

⁴⁷ Signed at Moscow, August 14, 1945; United Nations Treaty Series, vol. x, p. 300.

and that Strang had expressed the same views to the Chinese as we had.⁴⁸ Bevin asked Dening to take up the problem with Cadogan.⁴⁹

Bevin then discussed briefly the subject of propaganda. He said we should spread it far and wide that the Soviet should return the things she took from Manchuria. Mr. Butterworth said we had been trying to do this, that, for example, there had been a recent editorial in the most important paper in Shanghai which had sought to justify Russian actions in Manchuria, past and current.⁵⁰ It was a very ineffectual rationalization and this the Voice of America was now exploiting to the full. Bevin and Ambassador Jessup agreed that pamphlets, especially those labeled "top secret", were effective in spreading propaganda. Bevin then wound up the discussion on the Far East by reiterating that he would be careful about recognizing; would continue consultation; would put 1A list right; study the B list; that Hong Kong was adequately covered, and that he would keep Ambassador Douglas currently informed.

893.01/9-1549 : Telegram

The Ambassador in Australia (Jarman) to the Secretary of State

CANBERRA, September 15, 1949—3 p. m.

[Received September 15—6:09 a. m.]

198. Today's press dominated by stories Acheson-Bevin talks on Far East and London rumor British withdrawing Ambassador to China and considering recognition Communist regime there, also speculation that US will follow suit.

In view Deptel 82, June 14, which we communicated to External Affairs, please telegraph whether any changes are contemplated US policy non-recognition Communists in China.

JARMAN

893.01/9-1549

Memorandum by the Chief of the Division of Southeast Asian Affairs (Reed) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] September 15, 1949.

There are attached two telegrams (No. 254, September 7 and No. 263, September 13⁵¹) which indicate that the large Chinese population

⁴⁸ For further correspondence on Chinese appeal to the United Nations, see volume I.

⁴⁹ Sir Alexander M. G. Cadogan, British Representative at the United Nations.

⁵⁰ See telegram No. 3748, September 9, 5 p. m., from the Consul at Shanghai, vol. VIII, "Political and military situation in China", chapter VI.

⁵¹ Latter not printed.

in Malaya and commercial interests will figure largely in the UK approach to the question of recognition of the Chinese Communist Government. It seems that British officials and Chinese in Malaya believe that trade with Communist China will depend upon *de jure* recognition of a Chinese Communist Government.

It seems to me that this is not necessarily so as there have been many occasions in the past when trade relations have been carried on while no formal diplomatic relations existed. In fact our own historic relations with Russia provide an excellent example of such a situation.

From the point of view of Southeast Asian countries it would in fact be preferable for some time to come to carry on trade relations with China without formal diplomatic relations. This would be especially true of Thailand and Malaya where the large Chinese elements provide a ready base of operations for Chinese Communist activities.

You doubtless recall how reluctantly Thailand established diplomatic relations with China in 1942 for the first time in modern history. Up to that time trade had been as brisk as either side could desire. Thailand would doubtless welcome now an extended interim of no diplomatic relations with China. However, if both the US and UK recognize a Chinese Communist Government, Thailand, which generally follows our lead, may feel constrained to do likewise even though endangering its national security. The longer we can delay an act of recognition, the longer we can probably defer a sharp issue over communism in Thailand and Malaya.

This thought is being put before you not because it is original but in the hope that you might keep it in mind when considering the pros and cons of recognizing a Chinese Communist Government.

893.01/9-1649 : Telegram

The Consul at Hanoi (Gibson) to the Secretary of State

HANOI, September 16, 1949—3 p. m.

[Received 5:21 p. m.]

102. Deptel 42, September 7,⁵² Depcirtel August 19, 5 a. m., received while I absent leave Hong Kong. Anderson⁵³ accordingly referred telegram Abbott⁵⁴ who informed him he would answer for both posts.⁵⁵ Although I have not seen Abbott's reply, we discussed question in past and am sure our impressions agree.

⁵² Not printed.

⁵³ France Anderson, Jr., Vice Consul at Hanoi.

⁵⁴ George M. Abbott, Consul General at Saigon.

⁵⁵ See telegram No. 265, August 23, 3 p. m., from the Consul General at Saigon, p. 63.

Re specifically Hanoi Vietnamese political circles so concerned own problems with French their immediate interests Chinese affairs surprisingly lacking. Their reaction Department's White Paper for instance was almost complete disinterest. They follow local developments southern Chinese provinces especially Yunnan insofar as fragmentary news allows with more interest than elsewhere for they have inherent fear local war lords and bandits and do not believe Chinese Communists will be any more successful dominating bordering provinces than their predecessors. They consider Chinese threat as military rather than political and as emanating for the moment from these groups rather than from any organized Communist army.

I think consensus opinion among Vietnamese [in] Hanoi, who have any, is pending military developments and other factors recognition by Western Powers will be withheld immediate future but if Communists succeed overcoming all military opposition and establishing effective reasonably stable government these same powers will in reasonable time grant such recognition jointly if only assure continuance classic Sino-Western trade.

I do not think local opinion considers any policy recognition will be anything but joint one. Surely US and UK expected act jointly especially in view present high level Washington talks while French not considered to be in position either pioneer or fail follow in any policy adopted by their allies.

Tonkinese sentiments re Western recognition extremely difficult define. They obviously would favor indefinite non-recognition if such step might prove impediment to what they regard age-old Chinese covetousness of Vietnam. Yet threat China invasion also provided excuse presence increased number French troops and cure to them almost worse than illness. Thus they are torn by conflicting emotions complexity of which such, they cannot reconcile them into clear policy their own minds. Consequently while looking to desired end result without considering means they are apt do less address themselves and seek refuge in attitude defeatism. If Vietnamese thus affected has any hope left it is directed to Anglo-Saxon's [garbled group] looks both to oblige French grant him full independence and same time somehow forestall domination Vietnam by China as they did with Japanese.

In sum any US step re recognition will probably not actively influence opinion here one way or another providing it is not taken too hastily and is taken jointly with UK and French. Any independent action would doubtless lead to further confusion and misunderstandings.

French opinion here is simply question will be decided in present Washington talks, that no policy will be set or action taken without French and in any case it will have little effect their immediate and considerable problems Vietnam.

Considering all this it is strange no one locally at least has appeared to consider possibility Western recognition Chinese Communists might alter military picture and threat Indochina border.

GIBSON

893.01/9-1749

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 17, 1949.

Participants: Mr. Bevin
 Mr. Barclay ⁵⁶
 Mr. Dening
 Mr. Schuman
 Ambassador Bonnet ⁵⁷
 Mr. Clappier ⁵⁸
 Mr. Acheson
 Mr. MacArthur
 Mr. Merchant
 Mr. Butterworth
 Mr. Satterthwaite
 Mr. O'Sullivan ⁵⁹

Bevin opened the conversation by saying that he had discussed policy on China with me. The main difficulty was to reconcile our policies. The British are trying to keep a foot in the door and see what happens. They intend to keep their consuls in China and as much of their business as possible. On matter of recognition of the Communist regime, the British will proceed with the greatest caution. If the British are victims of overt action, they will take their case to the Security Council and the "Big Five". To sum up, Bevin said while the United States is withdrawing, the British are holding on as long as they can.

Bevin then said that he had had a message since his previous talk with me that two American ships, *Flying Independence* and *Flying*

⁵⁶ Roderick E. Barclay, former Acting First Secretary of the British Embassy, Head of the Personnel Department of the British Foreign Office.

⁵⁷ Henri Bonnet, French Ambassador.

⁵⁸ Bernard Clappier, Directeur du Cabinet of the French Foreign Office.

⁵⁹ James L. O'Sullivan, former Vice Consul at Hanoi, on detail in the Department.

Clipper, were attempting to run the blockade.⁶⁰ Does this change the situation? Butterworth said one of these ships had requested naval support to go to Shanghai but we had advised it that it can expect no assistance from our Navy. We are trying to get the *General Gordon* into Shanghai on September 23, primarily to take out Americans who want to leave, but this will not be a regular freight and passenger trip. Bevin inquired whether the ships were going to run the blockade. Butterworth said the ships were depending on "free enterprise" and hoping to get through. I said that we had not forbidden them to make the attempt. Butterworth remarked that while we have advised the Nationalist Government of China that the form of their announcement of the blockade was not traditional and correct, we have not advised our ships to ignore it. I said we are not eager to force a test of the legality of the blockade. Schuman said the French took the same position—that the announcement of the blockade was not in proper form and they do not recognize it. Bevin inquired whether the French were sending in a relief ship and Schuman said this was not probable. There are some French students and missionaries in China. Bevin asked whether they were going to be left there and Bonnet said they were free to do as they liked. Bevin then asked how would he get the French Ambassador out, and Schuman replied on a ship, he has a reservation. I said I understood the *General Gordon* will bring out about 1,200 passengers.⁶¹ Butterworth said of these more than 375 would probably be Americans. Bevin said he did not like the idea of the British Ambassador returning to London and it was suggested to him that he go as far as Hong Kong but no further. Were he to go completely out, the implication would be that the British were getting out of China. Butterworth interposed that we will leave our Consuls in China except where we can't supply them. There are probably about 800 Americans who will not leave China, who regard it as their home and settled residence.

Bevin said the Chinese Ambassador in Washington had told him the day before that Chiang Kai-shek was doing better and he was still anxious for United States support. The Chinese Ambassador said the Communists were behind their timetable, but Bevin said he thought they were ahead of the predictions made by the British Intelligence. Butterworth said that a representative of Marshal Li⁶² said he had received so little money from Chiang that the Nationalist Government on the mainland was in serious financial straits. Bevin

⁶⁰ For correspondence regarding the blockade of Communist-controlled areas by the Chinese National Government, see pp. 1098 ff.

⁶¹ For correspondence on the *General Gordon* evacuation, see pp. 1261 ff.

⁶² Acting President Li Tsung-jen.

said that Chiang can't decide whether to save his reserve or his country. Bevin said he could not make up his mind whether or not China was gone. He repeated that we should consult constantly to see how things were going. The British do not intend to "skedaddle" out of there.

Butterworth said the Communists may invite recognition of their government on October 10. Bevin said in that case we will have to make up our minds. I said that we should move slowly and in any case we should not go to them, that we could not win by going to the Communist Government, that would be doing just what they wanted us to do. I said we should consult and where possible coordinate our action. The Communists must recognize their foreign obligations and actually control the country before they are entitled to recognition. I repeated what I had told Bevin previously, that it was a matter of greatest importance to us that we do not recognize the Communist Government unless it is perfectly clear that they do control all of China. We do not want to recognize them and thus acknowledge that they have won the war. We want events to dictate this. I again emphasized that constant consultation is required. Schuman said the French had an additional reason for not recognizing the Communist Government prematurely, the fact that the Nationalist territories are close to Indo-China. I said we were studying the possibilities of preventing the Communists from controlling that part of China.

Bevin said that the Portuguese Foreign Minister had come to see him about Macao. Bevin said that he could not help him. Butterworth remarked that he understood the Government of Macao does not want additional Portuguese troops there, that there may not be any trouble, and the troops are a liability. Portugal is confident that by some undisclosed method it can hold on to Macao. Bevin believed that the Portuguese feel lonely in Macao and cannot defend it. In view of the British treaty with the Portuguese, he wondered whether Britain should do something if Macao is attacked. Bevin said that in Hong Kong if anyone starts shooting, the British will shoot back and then go to the UN. The situation in Macao, however, is different. I said the Portuguese Foreign Minister had told me that the troops in Macao are very few and he did not feel there would be an attack. He had asked me about our military liaison officers in Hong Kong, and whether we were going to fight with the British in Hong Kong. In reply I had said that he was slightly confused about our military liaison officers in Hong Kong, that these are military attachés, with diplomatic status, who have had to move there from China, and that

they are getting new titles. I said that we had not been asked to help the British in Hong Kong; that we would do what we are obliged to do under the UN charter.

Bevin said he had talked with the Dutch on Indonesia. The situation there was not too bad. The Dutch were also interested in the Nationalist movement in Indo-China and Burma and thought there was some danger that the Communists might make a raid on the whole area. He said that the British were doing what they could to support the local governments; that Malaya did not want full independence yet.

[Here follows section on Indochina.]

Schuman inquired what would happen in the Security Council if the Nationalist Government of China disappears. I said we believe absence of a permanent member from the Security Council does not prevent action. It was agreed that this legal question should be discussed between the United States, Britain and France on a technical level.

Bevin said he thought Nationalist resistance in China might go on for another year, and asked what Schuman thought. Schuman said he hoped so, to which Bevin replied that he was not speaking from hope, but from belief. I said we thought the Nationalists in China could be troublesome for some time.

[Here follows section on the proposed peace treaty with Japan.]

893.01/9-1549 : Telegram

*The Acting Secretary of State to the Ambassador in Australia
(Jarman)*

WASHINGTON, September 21, 1949—7 p. m.

138. Reurtel 198 Sept 15. No change US policy re recog Chi Commies. During recent conversations Wash Bevin and his advisers indicated opposition hasty recog; described Brit policy one of watchful waiting with close continuous consultation among friendly powers; and added UK would certainly not accord recog Govt which stated in advance that it wld not recognize its internatl commitments. However, Brit emphasized magnitude their investments in and trade with China. Dept believes Brit Govt in general less disposed delay recog than US.

Bevin's Far Eastern adviser stated Australian Govt of opinion nothing to be gained by delaying recog but favored consultation among powers before taking any action.

WEBB

893.01/9-2349 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, September 23, 1949—4 p. m.

[Received September 24—10:43 a. m.]

779. Radio reports during past few days give much publicity to statements British Government intends recognize Communist Government as soon as set up. American business men here anxious learn whether US Government proposes similar action in order determine their course action.

SMYTH

893.01/9-2849

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Freeman)

[WASHINGTON,] September 28, 1949.

Mr. McNichol⁶³ called this afternoon to inform me of a telegram which had just been received from Canberra with regard to the possible recognition by Australia of a Chinese Communist regime. The message stated, according to Mr. McNichol, that Dr. Evatt stated in Parliament on September 28 that the press report which had recently appeared in Australia to the effect that the UK was prepared to recognize a Chinese Communist regime shortly after its establishment had not been confirmed. Dr. Evatt also stated that Australia was in close touch with the US and the UK on this subject and that any action which might be taken with regard to recognition would follow a "common pattern". He added that, as all governments continue to recognize the Chinese National Government, the question of recognizing any new regime had not yet arisen.

893.01/9-2349 : Telegram

The Acting Secretary of State to the Consul General at Tientsin (Smyth)

WASHINGTON, September 30, 1949—6 p. m.

337. Reurtel 779 September 23. Secy and Un Secy made following points re question recog:

1. Time for decision when or if recog has not yet arrived as central Chi Comm govt not yet officially established.

⁶³ David W. McNichol, Second Secretary of the Australian Embassy.

2. Dept will undertake closest consultation with Cong prior taking any action re recog Chi Comm regime.

3. Dept desires keep in close touch, and if feasible concert efforts, with all concerned friendly nations on major Chi questions, including problem recog.

For urinfo only, early recog by US highly unlikely. Likewise Dept's info indicates Brit Govt will not be hasty in according recog.

WEBB

II. CHOU EN-LAI'S BID OF OCTOBER 1 FOR RECOGNITION; *DE FACTO* RECOGNITION BY THE BRITISH GOVERNMENT; REACTION OF THE UNITED STATES AND OTHER POWERS (OCTOBER)

793.00/10-249 : Telegram

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

PEIPING, October 2, 1949—1 p. m.

[Received October 2—3:33 a. m.]

1665. Received 9 p. m. yesterday cover addressed me personally without title using only street address from "Foreign Office, Central People's Government of People's Republic of China". Cover delivered by two persons who requested receipt. Given. Text of letter (in official note form) in translation as follows:

"Mr. O. Edmund Clubb.

"Sir: Mao Tse-tung, Chairman of the Central People's Government of the People's Republic of China, on this date issued a public statement. I am sending this public statement to you, Sir, with the hope that you will transmit it to your country's Government. I consider that it is necessary that there be established normal diplomatic relations between the People's Republic of China and all countries of the world. Chou En-lai (signature and seal), Minister of Foreign Affairs of the Central People's Government of the People's Republic of China. Peking, October 1, 1949."

Statement follows in next telegram Peiping number series.⁶⁴ Both letter and statement published today's *Hsin Min Pao* but not other papers.

Text letter was printed. Identical communication was received by French, Netherlands, Belgian, Italian Consuls, also late last night. British unavailable but receipt presumed. Today met with French, Netherlands, Belgian, Italian Consuls who are communicating briefly *en clair* (in absence facilities for sending coded messages) with their

⁶⁴ See telegram No. 1666, October 1, from the Consul General at Peiping, vol. VIII, "Political and military situation in China", chapter VII.

Governments. All four request text both letter and statement be given by Department to their Embassies Washington for transmittal their Governments. Presume Department would desire communicate also to British Embassy for their info.

CLUBB

893.01/10-249 : Telegram

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

Moscow, October 2, 1949.

[Received October 2—6:57 a. m.]

2476. Soviet press coverage formation Chinese Central People's Government totals 9 columns. Full page occupied Peking Tass despatch based Hsinhua [radio] transmitting general program People's Political Consultative Council.

Mao Tse-tung's October 1 declaration announcing formation government, decision establish diplomatic relations with "any foreign government prepared observe principles equality, mutual interest, mutual respect territorial integrity, sovereignty", front-paged with following covering letter Chou En-lai to Soviet Consul General Peking, Tikhvinsky:

"Am enclosing copy today's declaration by Chairman, Central People's Government, Chinese People's Republic, Mao Tse-tung, hoping you will transmit it your country. Establishment normal diplomatic relations between Chinese People's Republic, various other states, essential."

Full translations above items being despatched.

Peking Tass, based Hsinhua, transmits September 30 declaration People's PCC announcing establishment People's Republic China.

Same sources give text announcement decision appeal UNGA⁶⁵ for recognition, denouncing present Chinese UN delegation as "lacking right represent Chinese people".

KIRK

761.93/10-249 : Telegram

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

Moscow, October 2, 1949—midnight.

[Received October 2—8:05 p. m.]

2484. Chinese Chargé at 7 p. m. called at Foreign Office in response request and was read brief statement by Gromyko⁶⁶ in following sense:

⁶⁵ United Nations General Assembly.

⁶⁶ A. A. Gromyko, Soviet Deputy Minister for Foreign Affairs.

In view establishment People's Central Government [at] Peking, and in view political, military and economic developments China, Canton regime under Premier Yen Hsi-shan considered local in nature and incapable representing Chinese people in foreign relations. Accordingly, Soviet Government has decided to withdraw its representatives at Canton.

Gromyko handed statement to Chargé. Chargé asked for details status himself and staff, and was told: "We have nothing to add to this statement at this time." Chargé then asked if he could call at Foreign Office tomorrow for further information, and was given to understand he was at liberty to call on Foreign Office officials. Chargé described Gromyko's attitude as formal, but not unfriendly.

Information passed Embassy by Chargé with request secret classification. Chargé believes statement will be made public immediately by Foreign Office.

Sent Department 2484, Department pass Hong Kong 3, Nanking 104, Peiping 9 from Moscow.

KIRK

761.93/10-349 : Telegram

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

Moscow, October 3, 1949.

[Received October 3—11:06 a. m.]

2489. *Pravda* Oct 3 on front page prints Gromyko Oct 2 letter to Chou En-lai:

"Government USSR acknowledges receipt declaration Central People's Government China of Oct 1 proposing establishment diplomatic relations between People's Republic China and Soviet Union. Having considered Central People's Government China's proposal, Soviet Government, motivated by unchangeable desire for maintenance friendly relations with Chinese people and convinced Central People's Government China represents will overwhelming majority Chinese people, informs you it has decided establish diplomatic relations between Soviet Union and People's Republic China and to exchange ambassadors."

On back page *Pravda* carries following Tass communiqué headlined "Concerning termination diplomatic relations between Soviet Union and government of Yen Hsi-shan at Canton":

"On Oct. 2 deputy Foreign Minister USSR Gromyko on instructions Soviet Government made following statement to Chargé d'Affaires Canton Government at Moscow:

"As consequence events having taken place in China, which have led profound changes in military, political and social life country, as result of which Chinese People's Republic was formed and Central People's Government China created, Yen Hsi-shan government at Canton has ceased exercise authority in country, turned into Provincial Government of Canton and lost possibility of maintaining

diplomatic relations with foreign governments in name China. This situation has led to result diplomatic ties (*Soyazi*) China with foreign governments have proved themselves to be terminated (*Okazalis procrashchennymi*). Soviet Government, taking into account all these circumstances, considers diplomatic relations with Canton terminated and has decided recall diplomatic representatives from Canton.'["]

Dept pass USUN 27, Hong Kong 4, telCan unnumbered, Nanking 105, Peiping 10.

KIRK

893.01/10-340

Memorandum of Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] October 3, 1949.

Mr. Winckler⁶⁷ called this afternoon at his request with respect to the announcement from Peiping of the establishment of a central Chinese Communist "government". In accordance with Consul General Clubb's suggestion, I handed Mr. Winckler a copy of the text of the Communist announcement which was presented to the Consulate General in Peiping.⁶⁸

Mr. Winckler stated that the French Ambassador was concerned over indications that the British Government was desirous of recognizing the Chinese Communist regime in the near future. Winckler stated that from his conversations with Mr. Dening⁶⁹ he had received the impression that the British had a "burning desire" to recognize the Communists and that they would undoubtedly try to persuade the French and the U.S. to do likewise. He stated that the primary concern of the French was that a solid, united front of the western democracies be maintained in this matter and that the French, the British and the U.S. Governments should maintain the closest consultations to this end. He pointed out that the USSR was likely to claim that the western democracies, in withholding recognition from the Chinese Communists, were denying representation in the United Nations to the great majority of the Chinese people, and he indicated that a united front on the question of recognition was all the more essential.

I stated in reply that, in the opinion of the Department, the announcement of the establishment of the Chinese Communist "government" would not add any urgency to the question of recognition which

⁶⁷ Jean-Claude Winckler, Second Secretary of the French Embassy.

⁶⁸ See telegram No. 1666, October 1, vol. VIII, "Political and military situation in China," chapter VII.

⁶⁹ Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs (Far East).

had already been discussed between Mr. Bevin,⁷⁰ Mr. Schuman⁷¹ and Secretary Acheson. I assured Mr. Winckler, however, that we for our part would be most willing to continue our consultations on this matter with the French and would keep them currently advised of any new developments in our thinking.

893.01/10-449 : Telegram

The Ambassador in Poland (Gallman) to the Secretary of State

WARSAW, October 4, 1949—noon.

[Received October 4—11:05 a. m.]

1293. Department repeat China. According to AP representative Godfrey, Foreign Minister Modzelewski in first known official appearance in approximately 6 months has summoned Acting Chinese Chargé Kiang for 2 p. m. this afternoon. Chinese Chargé has been informed by Foreign Office sources Polish Government will break relations at that time and that Modzelewski has appointment at 2:30 with representatives Communist China to recognize "Chinese People's Republic."

Kiang awaiting orders from Canton re Embassy's archives and is reportedly determined not surrender them without instructions.

[GALLMAN]

893.01/10-449 : Telegram

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

PEIPING, October 4, 1949—4 p. m.

[Received October 4—3:31 a. m.]

1674. ReContel 1665, October 2. British Consulate has acknowledged receipt Peiping Foreign Office by letter, addressed simply "General Chou En-lai", without consular title, saying note forwarded. French Consulate plans deliver unaddressed letter signed personally to Aliens Affairs Office and reporting forwarding.

Messenger indicated to me October 1 location Foreign Office would be made known in due course, informed Belgian Consulate and [any?] communication re matter could be transmitted via Aliens Affairs Office.

Refraining from addressing Chou pending receipt instruction from Department. Note that this action seems possibly open door if only slightly to contact with Communist side. Noting pending cases such

⁷⁰ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁷¹ Robert Schuman, French Minister for Foreign Affairs.

as Mukden Consulate and Smith-Bender,⁷² and possible future requirements, believe it advisable attempt discover what lies behind door. Will enlarge upon this belief in early message but would recommend at this time some step be taken here to inform Chou his note was forwarded, as first step to development contact. Question in that case would be whether by memo left at Aliens Affairs Office or by letter addressed Chou. In first case, I should prefer sign as Consul General, in second, presume communication would properly be addressed him personally might be signed same way. Attempt might also be made at direct contact, though success unlikely.

Please instruct.

CLUBB

893.01/10-449 : Telegram

The Minister in Bulgaria (Heath) to the Secretary of State

SOFIA, October 4, 1949.

[Received October 4—12:57 p. m.]

833. *Otechestven Front* today publishes text of telegram to Chou En-lai, Minister Foreign Affairs Central People's Government Chinese People's Republic, acknowledging receipt of communication of October 1 from latter government and stating Bulgarian Government will establish diplomatic relations with People's Republic China and exchange representatives.

Also publishes article reporting establishment diplomatic relations between USSR and People's Republic China and breaking relations with Canton.

HEATH

893.01/10-449 : Telegram

The Chargé in the Netherlands (Steere) to the Secretary of State

THE HAGUE, October 4, 1949—6 p. m.

[Received October 4—4:03 p. m.]

881. We called to attention of Chief Political Section Foreign Office editorial in today's *Nieuwe Rotterdamse Courant* on China. Principal points made in article were:

As matters now stand, Communist Government is a reality and Nationalist Government is "not much more than a fiction". There is, therefore, every reason for other countries besides Russia to recognize

⁷² For correspondence regarding these cases, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists" and footnote 31, "Political and military situation in China", chapter V.

Communist Government *de facto*. *De jure* recognition would create more difficulties for many governments other than Russia since they are bound to the "old state" by treaties. The democracies are afraid of resigning themselves to real situation China. Furthermore, *de jure* recognition would give Russia an ally in SC.⁷³ If three big Western democracies wish to avoid SC becoming paralysed, "they might feel obligated to give *de jure* recognition to the Chinese People's Republic sooner than they intended. This might not be a bad thing. It is after all no use running away from reality."

Foreign Office official said that except for sentence re treaties, he was forced to admit that there was a good deal of sense in article. He continued that he did not feel that recognition Communist Government could be postponed for a very long time, but he was careful to add that Holland would thoroughly study opinions of big powers and that Holland would not precipitate any action re recognition.

Official also informed us that extensive Netherlands Embassy property in Peking now in charge of by [a] junior official. Accordingly today telegram being sent to Nanking that, before Netherlands Ambassador leaves, Counselor should make trip to Peking ostensibly for inspection of Embassy. If necessary, added official, Counselor's stay in Peking "could be extended for some time".

Sent Department 881; repeated Moscow 5, London 97.

STEERE

893.01/10-449

Memorandum of Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] October 4, 1949.

In the course of a conversation today with Mr. Bounous⁷⁴ on other subjects relating to China, he brought up the question of possible recognition of the Chinese Communist regime. Mr. Bounous indicated some concern over press reports both in this country and in England which, in his opinion, forecast recognition of the Chinese Communists by the British Government in the not far distant future. He inquired whether formal consultations were in fact taking place between the U.S. Government and other interested powers and indicated that, if such were the case, the Italian Government would very much like to be included.

⁷³ Security Council of the United Nations.

⁷⁴ Franco Bounous, First Secretary of the Italian Embassy.

I replied to Mr. Bounous along the lines of Mr. McDermott's statement to the press of yesterday,⁷⁵ adding that it was not the Department's intention to institute new and formal consultations with other interested powers on this subject. I pointed out that this Government some time ago recommended to all interested friendly governments that a united front be adopted toward the question of recognizing any Chinese Communist regime and that since that time we had continued an informal exchange of views on this matter with most of these governments. I also stated that the Department was not of the opinion the announcement from Peiping of the establishment of a Chinese Communist "government" added any urgency to the discussion of this subject.

In response to my question as to whether, in his opinion, a united front on this matter was feasible, Mr. Bounous replied that his government was concerned primarily over a possible split on this issue between the British and the U.S. He indicated, however, that if the British should decide to recognize the Chinese Communists independently, the Italian Government would in his opinion follow the line of the U.S. and continue to withhold recognition. Mr. Bounous added, however, that the position of the French Government was somewhat different, and he felt that in this event it would be difficult for the French to withstand the pressure for recognition which would be brought upon the government.

893.01/10-549 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, October 5, 1949—2 p. m.

[Received October 5—11:16 a. m.]

1191. Official of Ministry External Affairs asked Embassy today what action US would take on request Chinese Communist Government for recognition. He expressed desire discuss matter with us if we should receive information US attitude. Embassy officer referred him to statements attributed by this morning's press to Department spokesman which indicated no precipitate action would be taken.

Matter difficult for Ministry External Affairs in view absence Bajpai⁷⁶ and next ranking officer plus preoccupation Nehru⁷⁷ with last minute problems prior his departure tomorrow morning. Our

⁷⁵ Michael J. McDermott, Special Assistant to the Secretary of State on press relations, had underscored that aspect of the Department's approach to the recognition problem which included consultation with other powers.

⁷⁶ Sir Girja Shankar Bajpai, Secretary General of the Indian Ministry of External Affairs.

⁷⁷ Jawaharlal Nehru, Indian Prime Minister and Minister for Foreign Affairs.

informant C. S. Jha ⁷⁸ remarked some sort of urgent action was required but indicated Ministry viewpoint had not yet crystallized.

In view slow communications between Indian Embassy [at] Washington and Ministry External Affairs, suggest if Department wishes to advise GOI ⁷⁹ our thinking this matter Embassy be instructed appropriately.

DONOVAN

893.01/10-549 : Telegram

The Chargé in Hungary (Cochran) to the Secretary of State

BUDAPEST, October 5, 1949—4 p. m.

[Received October 6—5:50 a. m.]

1184. According press, granting recognition Government Chinese People's Republic as sole lawful Government China announced in cable from Foreign Minister Kallai to Foreign Minister Chou En-lai. Cable says successes Chinese people in their heroic fight for liberty under Mao Tse-tung had ensured freedom, possibility people's democratic development greatest part China. Population had created pre-conditions for formation Central Government Chinese People's Republic, a government expressing will majority Chinese people, and formation which was historic success in cause of world peace. Hungarian Government, therefore, wishing intensify friendly relations between two peoples, decided recognize new government.

Sent Department. Repeat Canton.

COCHRAN

893.01/10-549 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, October 5, 1949—5 p. m.

[Received October 5—1:43 p. m.]

3988. In off-record press interview with American correspondents today, Attlee ⁸⁰ is reported to have said in response to question regarding recognition Chinese Communist Government that (a) British Government would proceed slowly, (b) there were many facets of the problem which needed mature deliberation, including the attitude of

⁷⁸ Joint Secretary of the Indian Ministry of External Affairs in charge of American affairs.

⁷⁹ Government of India.

⁸⁰ Clement R. Attlee, British Prime Minister.

Communists toward China's international obligations, and (e) so far as Nationalist Government is concerned all is not yet lost.

HOLMES

893.01/10-649 : Telegram

The Ambassador in Cuba (Butler) to the Secretary of State

HABANA, October 6, 1949—3 p. m.

[Received 6:22 p. m.]

338. In reply to my question, Hevia⁸¹ told me yesterday Cuba will follow lead of US in its relations with China. He said no question of Cuba's recognizing Chinese Communist government at present time.

BUTLER

893.01/10-649 : Telegram

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

PEIPING, October 6, 1949—3 p. m.

[Received October 6—6:57 a. m.]

1689. ReContel 1674, October 4; Deptel 682, October 4.⁸² Belgian Consul acknowledged receipt and forwarding Chou En-lai letter addressing Chou as "Your Excellency" but without further title and omitting his own title. He transmitted message via Aliens Affairs Office. Netherlands Consul acknowledged similarly addressing Chou as General. Both had consulted Ambassadors, were told use own judgment and coordinate with colleagues. Understood British Consul was specifically instructed acknowledge.

Apparently AAO has been authorized act as channel for such communications but still no indications its usefulness to Consuls has been otherwise enhanced.

Reiterate belief reported Conreftel advisable I likewise make some acknowledgement receipt and report transmittal. This is especially case if it is hoped, as indicated Depreftel, establish contacts with Chou for other purposes. I am withholding action regarding Mukden temporarily in hope receipt Department's authorization regarding acknowledgement which would give something in nature springboard.

Reference White's⁸³ personal observation to press October 4⁸⁴ [that] Chou's letter was identic to all Consuls Peiping (except unknown what communication sent Soviets) and couched in entirely

⁸¹ Carlos Hevia, Cuban Minister of State.

⁸² For latter, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

⁸³ P. Lincoln White, Executive Assistant to Michael J. McDermott.

⁸⁴ In a lengthy question and answer period Mr. White had read to the press the text of the Chou letter and discussed it with them.

courteous terms with reference in text to address as "Sir" or "Excellency" and use of honorific before word "country" (of addressee). No suggestion of intended discourtesy. Full probability seems be that Communists in use personal address were simply adhering their chosen line of regarding Consulates as non-existent in technical sense pending establishment regular diplomatic relations. Believe it would be desirable correct the impression given by observation in question.

CLUBB

893.01/10-649

*Document Transmitted by the French Embassy to the Department of State*⁸⁵

His Majesty's Government in the United Kingdom are carefully studying the situation resulting from the formation of the central peoples government.

Friendly and mutually advantageous relations, both commercial and political, have existed between Britain and China for many generations. It is hoped that these will continue in the future. His Majesty's government in the United Kingdom therefore [suggest] that pending completion of their study of the situation, informal relations should be established between His Majesty's Consular offices and the appropriate authorities in the territory under the control of the Central peoples government for the greater convenience of both governments and promotion of trade between the two countries.

893.01/10-649 : Telegram

The United States Representative at the United Nations (Austin) to the Acting Secretary of State

NEW YORK, October 6, 1949—7:35 p. m.

[Received 8:08 p. m.]

1237. From the Secretary. At meeting with Bevin and Couve de Murville⁸⁶ today, former referred to our discussions of Chinese situation last month, and said he did not believe there was anything more we can do at this time. I pointed out that we had agreed to move slowly and not to take action without consulting each other. I added

⁸⁵ Notation by the Deputy Director of the Office of Chinese Affairs (Freeman) : "Handed to Mr. Butterworth by M. Daridan, French Embassy, on October 6, 1949, and purporting to be the text of the British reply to the Chinese Communist announcement establishing a 'Peoples Government' and bidding for recognition by the foreign powers."

⁸⁶ Director General of Political Affairs of the French Foreign Office.

that Chinese Communist government had been set up only few days ago and there seemed no reason for haste on our part.

Bevin mentioned that State Department was being kept fully informed in regard to plans of British Ambassador to China.⁸⁷ [Acheson.]

AUSTIN

893.01/10-449: Telegram

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

WASHINGTON, October 6, 1949—9 p. m.

692. Ref urtel 1674, Oct 4. Dept of opinion, unless you perceive strong objection, you shld take advantage of Chou letter to incorporate in reply reiteration our anxiety re position Mukden staff. It suggested you reply along fol lines addressing Chou in personal capacity as "Mr. Chou En-Lai" and stating simply his letter forwarded ur Govt and that you are taking advantage of informing him of this fact to bring to his personal attention deep concern of US Govt re inability ConGen Ward and his staff depart Mukden, contrary established principles of internatl civility and in spite of specific assurances from such Comm auth[oritie]s as you have been able to communicate with to effect that necessary facilities were being made available. In light possibility ultimate publication such reply pls telegraph Dept exact text your communication to Chou after transmission.

As possibilities of developing situation permit continue ur endeavors make contact, direct or indirect, with Chou and other responsible auths in order to exert maximum pressure for early action re Mukden staff and other outstanding protection cases.

WEBB

893.01/10-649: Telegram

The Ambassador in Yugoslavia (Cannon) to the Secretary of State

Belgrade, October 6, 1949.

[Received October 7—12:36 a. m.]

1036. Today's *Borba*⁸⁸ announces FPRY⁸⁹ recognition yesterday of Central Government of the People's Republic of China.

CANNON

⁸⁷ Sir Ralph Stevenson.

⁸⁸ Yugoslav Communist newspaper.

⁸⁹ Federated People's Republic of Yugoslavia.

893.01/10-749 : Telegram

The Acting Political Adviser in Japan (Sebald) to the Secretary of State

Tokyo, October 7, 1949.

[Received October 7—6:59 a. m.]

395. Following is gist of information supplied by Ratnam, First Secretary, Indian Mission in Japan, recently returned on *General Gordon* from 5-month stay Nanking, part time as Chargé:

British Ambassador in China, Sir Ralph Stevenson, strongly recommends immediate recognition Chinese Communist regime by British Government for economic reasons and on principle that this is only realistic approach to Chinese problem. Recognition according to Chinese Communist definition must be *de jure* or not at all and must be on a reciprocal basis. Ratnam claims in discussions with British Ambassador he advised against immediate recognition until assured that China not [now?] essential in solution of larger world problem. Ratnam also confident Indian Government will not immediately recognize Chinese Communists unless influenced by UK to follow latter's lead. He furthermore convinced precipitate recognition by UK solely on economic grounds will eventually result "in chasing rainbow" as Marxist indoctrination Chinese Communist administrators ensures eventual direct or indirect (by extortionate taxation) confiscation foreign properties. He believes that when foreigners have been utilized strengthen Communist regime, their usefulness will be at an end and foreigners thrown out. Ratnam personally thinks precipitate recognition would be mistake and that China situation should be carefully watched especially with reference possibilities continued major opposition by Chinese National Government.

From his observations and numerous conversations with Soviet Embassy friends Nanking, Ratnam convinced entire Chinese Communist effort is directed on high-level centralized basis by Soviet Russia although he unable obtain any information disclosing connection between Soviet Embassy personnel and Chinese Communists. He states entire pattern Chinese Communist regime from top to bottom closely follows Soviet Russian pattern and that in no instance could he discover any divergence from usual Soviet organization or policy line. While greatly impressed with self-discipline Chinese Communists and apparent immediate improvement in administration after take-over, Ratnam attributes these factors to utter ruthlessness with which Communist policies carried out among Chinese people.

Comment upon Ratnam: Considered an able and intelligent observer. Excuses his admitted associations with Japanese pro-Com-

munists as necessary in order find out how Communist Party operates and states followed similar associations for same reason in China. In light these proclivities, consider above remarks unusually revealing.

SEBALD

893.01/10-649

Memorandum by Mr. Troy L. Perkins of the Office of Chinese Affairs to the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant)

[WASHINGTON,] October 7, 1949.

With reference to that part of Peiping's 1689⁹⁰ which suggests that we correct the impression given by our press people regarding the Chou En-lai letter, Mr. Freeman and I feel that it would not be advisable for the Department to retrace its steps on this point of interpretation.⁹¹ The balance might be righted by a remark from our spokesman that the Communists appear to have sent the same letter to all representatives of foreign countries in China, including the eastern European countries (incoming press reviews indicate that the latter countries received a similar text).

For our own purposes, we agree with Clubb that the letter, while brief, was not curt or imperious. To preserve a long-standing Communist line with regard to Chinese equality, "liberation", etc., the new regime evidently intends to avoid any possible criticism of being a suppliant in its relations with foreigners.

893.01/10-749 : Telegram

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

Moscow, October 7, 1949—1 p. m.
[Received October 7—12:01 p. m.]

2538. Receipt by Consulate General [at] Peiping [of] letter from Foreign Minister CPG (Central People's Government) indicates realistic approach new regime to problem recognition. Instead of leaving matter in air, CPG has passed ball directly to us and next move is ours.) Chou's technique of addressing Clubb personally seems immaterial, as inclusion title might have implied recognition Clubb's status, a step which CPG could scarcely be expected to take now. While difficult to estimate CPG attitude toward continued residence China our consular officials in absence recognition, it appears prob-

⁹⁰ October 6, 3 p. m., p. 102.

⁹¹ Marginal notation by Mr. Merchant: "I agree".

able to us that CPG will act to cut off their channels communication or will evict them, particularly if we slam door abruptly on recognition. Value reports from Consulate General, Peiping, this critical period need not be emphasized.

Several courses of action suggest themselves to us:

- (1) Ignore approach to Clubb:
- (2) Object to manner letter addressed;
- (3) Authorize Clubb to say we will give matter study;
- (4) Authorize Clubb informally request information CPG attitude toward existing treaties, debts, trade, US investments China, missionary activities, etc. In recommending fourth course for Department's consideration, Embassy suggests that this dickering for information might not appear unreasonable to CPG, that it could drag out Clubb's stay and freedom to utilize radio, and that it would inevitably cloak him with representative status in minds CPG officials he contacts, perhaps enhancing his chances to hang on indefinitely.

Embassy considers we hold at least two trump cards our hand: first, CPG anxiety to take China UN seat and to acquire attendant international prestige (USSR equally keen on this); second, CPG's pressing need for foreign trade to ease economic and social problems. Both requirements difficult if not impossible without US-UK recognition although British may considerably weaken second by Hong Kong trade.

In further development Embassy's views on recognition (Embtel 2155, August 26), we feel that recognition should be extended when CPG has established control over principal areas mainland, and recognition as such should be separate from basic problem policy toward China. Advantages to US in operating mission Peiping include following: on spot reporting, protection American property and citizens; some contact and inevitable influence of Embassy officers with personnel CPG, direct and indirect; dissemination, however informal, of western news not available in rigidly censored press; focal point in China for developing property and exploiting to our advantage USSR imperialism Manchuria and China, USSR responsibility for economic and social ills and restrictions on freedoms, and for encouragement and development pro-US elements. While VOA⁹² will be useful in publicizing USSR role, and can be furnished by our Embassy Peiping with material, relative shortage shortwave sets China increases importance direct contact.

In period commencing with establishment CPG we see as principal aim US policy to prevent China from contributing to strength USSR bloc, particularly in event future war. As outlined in OIR 5012,

⁹² Voice of America.

August 18,⁹³ we must prevent trade which will enable China to industrialize. Besides doing what we can to limit western aid for industrialization China, we must work for split between CPG and USSR and for weakening of CCP and eventual overthrow by indigenous Chinese forces whose main strength would not be US intervention. We believe total absence official relations will work against our long range aims.

Sent Department; Department pass London 278, Paris 360.

KIRK

893.01/10-649

Memorandum of Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] October 7, 1949.

Mr. Winckler called this afternoon with reference to the text of a note⁹⁴ (attached) which was handed to Mr. Butterworth last night by M. Daridan, Counselor of the French Embassy. The note purported to be the text of a reply from the British Government to the Chinese Communist announcement establishing a "People's Government" and bidding for recognition by the foreign powers.

Mr. Winckler stated that the French Foreign Office in transmitting this text to the French Embassy had indicated that, according to its information, the British Consul in Peiping "had been instructed to transmit" the note at such time as he deemed opportune. Mr. Winckler added that the text of the note had apparently been received from the British Embassy in Paris, and he expressed surprise that the British Embassy in Washington had not yet communicated the text to the Department. He implied that the French Government reaction to the British note was one of astonishment that such action would be taken without consulting with the French and U.S. Governments and that the action if taken would have the effect of pulling the rug out from under the U.S. and French positions in China.

Without going into details, I informed Mr. Winckler that we were endeavoring to ascertain from the British Government whether any reply had in fact been transmitted to the Chinese Communist authorities and that I would inform him later in the premises.

In reply to my pertinent question, Mr. Winckler informed me that the French Government had instructed Consul General Breal in Peiping to call on Chou En-lai and orally acknowledge the receipt of Chou's communication announcing the establishment of the Chinese

⁹³ Not printed.

⁹⁴ *Ante*, p. 103.

Communist government informing him at the same time that the message had been transmitted to the French Government. Mr. Winckler assured me that, so far as he was aware, no further reply by the French Government was contemplated at this time.

893.01/10-749 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, October 7, 1949—7 p. m.

3663. Within past two days both Fr and Ital Embs have approached Dept expressing concern over possible Brit recog of Chi Commies within near future. Recent editorials in *London Times* and *Manchester Guardian* plus press reports quoting "official circles" London have no doubt contributed to increasing concern. Fr particularly alarmed over possible dissolution common front re recog as Fr Emb apparently of opinion Fr Govt wld not be able withstand pressure for recog shld other major power break common front.

Ur info only, Dept has recd from Fr Emb fol text of what purports to be Brit Govt reply which according to Fr either was delivered or is to be delivered to Chi Commie auths Peiping in answer to Chou En-lai's message announcing establishment of govt and bidding for recog by fon powers:

[Here follows text as printed on page 103.]

Dept considerably disturbed over designation in note of Chi Commie regime as "Peoples Govt", suggestion that "informal relations shld be established" and fact that note sent from govt to govt. Although question whether note does in fact amount to *de facto* recog Chi Commies by Brit one of intent and therefore cannot be determined by Dept, wld nevertheless appear to be step in direction recog and therefore one which might properly have constituted subject for consultation our two Govts in accordance understanding reached in Bevin-Acheson conversations.

Without indicating to Brit you have text purported reply, pls discuss with FonOff earliest opportunity US attitude toward Chi Commie note. You may state that US does not intend to transmit any reply to Chi Commies other than simple acknowledgment sent by ConGen Peiping to Chou (addressed to Mr. Chou En-lai) informing latter that note had been forwarded to US Govt as requested. You shld ascertain whether Brit have already or plan to transmit reply other than acknowledgment and indicate that if so question might

properly be one for consultation betw two Govts in accordance with Bevin-Acheson understanding. Pls report reaction soonest.

WEBB

893.01/10-549 : Telegram

The Acting Secretary of State to the Chargé in India (Donovan)

Washington, October 7, 1949—7 p. m.

693. Re query Min External Affairs on our attitude toward recognition Chi Commies (urtel 1191 Oct 5), you may reply that formal estab of a central Commie regime in China at this time was not unexpected development and that we believe there shld be no haste in recognition regime. US Govt has in past been in frequent consultation with GOI and other interested and friendly govts on developments in China and we have every expectation that these consultations will continue in a normal manner. In seeking agreement with friendly powers to prior consultation we have had in mind complicated aspects of this particular problem and fact that any action taken shld not be based on fallacy that the first come wld be the better served.

Dept unable envisage reasoning behind assertion of Ministry External Affairs official that "some sort of urgent action was required"; it wld assume that before giving serious consideration recognition GOI wld wish to satisfy itself that such a regime wld fulfill conditions generally recognized minimum:

- (1) Chi Commie regime has established effective control over China.
- (2) It has shown by actions it respects internatl obligations and intends honor them.
- (3) It has demonstrated satisfactorily it will conduct its internatl relations in conformity established concepts of dipl[omatic] community.
- (4) Convincing evidence obtained this recognition wld result in marked improvement GOI ability protect its interests.

Meanwhile, it is noted that the announcement of inauguration of a central Commie regime contains no assurances that regime is prepared assume internatl obligations which devolve upon a Govt of China, nor has its actions to date given basis for optimism re its intentions. It is also noted that large areas of China remain under control friendly govt with which we maintain dipl relations.

Does Emb believe decision wld be made in absence Nehru?

WEBB

93.01/10-849 : Telegram

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

Moscow, October 8, 1949—noon.

[Received October 8—11:42 a. m.]

2543. *Pravda* and *Izvestia* devote over column to Tass articles on China. Report Chinese masses hail establishment diplomatic relations with USSR and step up production in honor founding new republic. Soviet press quotes telegram from Mongolian People's Republic to new Chinese Government which "in name whole Mongolian people" salutes heroic Chinese people and states that "expressing will of whole Mongolian people", MPR Government has decided establish diplomatic relations. Wording of telegram invites speculation whether MPR claiming speak for Mongolians of inner Mongolia, leaving door open for absorption latter into MPR.

BARBOUR

893.01/10-849 : Telegram

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

PEIPING, October 8, 1949—1 p. m.

[Received October 9—3:20 a. m.]

1704. ReDeptel 692, October 6. Forwarded letter to Chou En-lai today. Sent letter FonOff address which now known. Text by separate message.

Assuming Department in non-receipt Contel 1689, October 6, at time drafting its message, ventured use discretion to address Chou as "General" in general line with other consular colleagues.

ReContel 1674, October 4, my first impression re form use by French Consulate has now been corrected; he states he sent his letter without salutation, but at own discretion addressed both cover and letter with full title used by Chou; moreover has now been instructed to endeavor call on Chou for simple purpose informing latter of forwarding note and incidentally at discussion taking up matter of use telegraphic codes for official messages.

In my letter in usual Chinese style I quoted text Chou's communication, made no other reference Communist government or official titles. Expanded somewhat part re Mukden to give Chou essential background, and expressed hope concerned authorities would now take prompt steps rectify situation.

CLUBB

893.01/10-849 : Airgram

The Chargé in Pakistan (Doolittle) to the Secretary of State

KARACHI, October 8, 1949.

[Received October 20—2:15 p. m.]

A-526. In Weeka No. 40 of October 7⁹⁵ the remark was made that no comment was yet available on possible recognition by Pakistan of communistic Chinese Government. Last night in conversation with two or three officials of the Foreign Office the question was raised and it was stated that Pakistan would closely follow developments in the United Nations Assembly and that Zafrullah⁹⁶ and their Delegation had been instructed to that effect. The officials pointed out that the matter was not pressing so far as Pakistan was concerned as there is no present Chinese representation in this country nor had they any representation in China. Their policy is apt to be based on what happens in the UN.

DOOLITTLE

893.9111RR/10-849 : Telegram

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

PEIPING, October 8, 1949—1 p. m.

[Received October 11—4:47 a. m.]

1710. Re Contel 1619, September 27⁹⁷ re mooted recognition Communist regime, invite attention following factors.

1. Canton seems on verge collapse and in all probability authority Nationalist regime will shortly be further reduced from present bare minimum. Examples given by other militarists indicate further defections from Kmt⁹⁸ ranks to Communist side must be considered probable as Generalissimo's⁹⁹ rule crumbles. Inclusion Lung Yun¹ in Peiping group augur[s] well for stability Yunnan under colleague Lu Han.² Szechuan generals were ever self seekers. It is even within bounds possibility Li Tsung-jen and Pai Chung-hsi³ will find accommodation within bounds "People's Republic of China". Little of substance is now left besides Formosa where Kmt rule can hardly be deemed popular. In short, practically all of China proper will prob-

⁹⁵ Not printed.⁹⁶ Mohammad Zafrullah Khan, Pakistani Minister for Foreign Affairs.⁹⁷ Vol. VIII, "Political and military situation in China", chapter VII.⁹⁸ Kuomintang (Nationalist Party).⁹⁹ Chiang Kai-shek, leader of the Kuomintang, and President of China prior to his retirement on January 21 in favor of Vice President Li Tsung-jen as Acting President.¹ Governor of Yunnan, 1927-45.² Governor of Yunnan since 1945.³ Military and Political Affairs Director for Central China.

ably be found inside Communist camp within visible future. And if Nationalist Government presents its case against USSR in UN on basis same evidence it has adduced previously, and with same ineptitude it has shown in other post-war political matters, its political failure will be complete in all sectors.

2. Opposition to Communist economic fighting front has been in rapid decline for full year. To endeavor to stem that ebb tide of decline runs contrary to bitter lessons experience and is demonstrably useless. Opposition to Communists must now develop within their own camp in struggles over such matters as agrarian policy, attitude toward petty *bourgeoisie*, Soviet influence in Manchuria and Sinkiang, contradiction between international political orientation and need foreign trade for program industrialization, party power. Political orientation at present is clear cut enough, but strains really only begin with achievement military aims and establishment primary controls over same 450 million Chinese who have been bitterly fighting each other for decades. Communist pretense of unanimity in those conditions must be forced. Purges of party and suppression of dissident elements to be anticipated, but basic problems will remain unsolved for years. Communist rule in sum must long be attended by serious difficulties.

3. USSR early in field where conditions favorable for its plowing. It can be expected put much political force into effort but little material investment, this at any rate in China proper. Economic conditions therefore can only be improved slowly and laboriously which (even granted dominant role played by political factors in Communist thinking) will probably force both China and USSR recognize need for leaving some room for action by other nations, for China's own salvation. Communist China's political usefulness moreover would be reduced for USSR if China unable win acceptance in international arena, so as to vote for USSR. Countries with interests here will therefore probably be permitted retain and develop them for present, within narrow limits established by xenophobic regime highly conscious of its own authority [but of no one?] else[s] interest. Nation with greatest economic stake is Britain, and difficulties it is now experiencing in many fields will presumably increase pressure for accommodation more agencies in China if such accommodation promises save something from the burning. With political channels established through recognition, Britain or other nations would have some possibility manipulating situation to own benefit. Without such channels any nation would be selectively debarred from influencing developments and its own nationals and interests in China probably subjected crippling restrictions.

4. Communists will soon be in effective power over all but periphery, where main conflict, and one which can be expected grow, is with USSR (Tibet probably safe for coming winter). Communists reputedly (see reftel) have already adjusted their position re international treaties, may be expected accept other realities as time goes on. This development should, of course, be watched. It should also be investigated by early approach to Communist side to discover their attitude re matters of interest to powers called upon to extend recognition. If Lo Lung-chi⁴ would say "recognition without bargaining," it is still to be observed that Communists have exigent needs, and although they would surely prefer get good values for nothing it is highly probable that even as they pay to USSR for value received they would pay to others, as is fit and proper. Least effective way of influencing situation in China is by divorcing self from it; better procedure is to maintain contact, investigate possibilities as situation develops, and manipulate that situation to desired ends as far as possible. Possibilities offered by joint consultation with interested powers in UN suggest themselves naturally.

5. In circumstances would recommend following action: (a) continuation policy non-interference to benefit dying Nationalist regime; (b) maintenance for present non-committal (one way or other) position vis-à-vis new regime, but through present crack in door early endeavoring show some interest in planning, intentions and policies regime; (c) let Communists get glimpse of concrete benefits to be obtained through commerce (without slightest hint USA would give charity) and good relations with non-Soviet countries; and (d) if new government seems willing adopt more reasonable attitudes and indicates readiness follow usual standards international behavior, after presumed collapse Canton and hypothetical Chinese failure prove case in UNGA, recognize that government and maintain relations with it even as with USSR and East European countries.

Re (a), note uselessness trying prop up from outside regime unsupported by its own people; re (b), recommend particularly that we do not in fluid situation commit selves overtly as regards future policy, but instead quietly undertake exploration to discover what Communists have to offer, in meantime avoid adoption generally hostile position which would only make development contacts ultimately more difficult; re (c), believe Communists have to discover for selves that political and economic relations with USA and others on our side would promise more profit to China than dependence on USSR before they would feel urge to turn, and that in meantime USA can only view growing Soviet influence and presence Soviet

⁴ A leader of the Democratic League.

technicians and political workers with best grace possible, appreciating that this very development may help develop schisms in China politics in favor independence from USSR; re (d), maxim in international law finds warrant for recognition new governments when they wield effective political power and are willing and able assume international obligations, this seems in line with position American delegation Bogotá⁵ that established diplomatic relations does not imply judgement of its domestic policies, and however unpleasant it seems that USA can hope play effective pacific role in contemporary China, and perhaps manipulate situation to its political advantage, only through establishment channel for direct dealing with present regime.

[CLUBB]

893.01/10-949 : Telegram

The Ambassador in Egypt (Caffery) to the Secretary of State

CAIRO, October 9, 1949—2 p. m.

[Received October 9—10:43 a. m.]

935. Following publication in Cairo press of tendentious notices re possible recognition by the Egyptian Government of the Chinese Communist regime, Embassy made informal inquiry of competent Foreign Office officials who indicated that while Egyptian Government is attentive to situation in China and is following developments, no action likely to take place prior to recognition of Communist regime by major powers. Accordingly not only Egyptian diplomatic representative [in] China is being asked to report but instructions have been issued to Egyptian Ambassador, Washington, and to Egyptian Embassy, London, to report on the attitude of the American and British Governments toward the problem presented. It is probable that Egyptian Ambassador to China will be soon called home on consultation.

CAFFERY

893.01/10-1049 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, October 10, 1949—noon.

[Received October 11—3:34 a. m.]

2240. Asuncion, who, as clerk in charge of archives, is sole representative Philippine Legation, has informed me that neither Legation

⁵ See Department of State, *Ninth International Conference of American States, Bogotá, Colombia, March 30—May 2, 1948, Report of the Delegation of the United States of America With Related Documents*, pp. 82-83 and Resolutions XXXV and XXXVI, p. 271.

nor Consulate General [at] Shanghai has received letter from Mao Tse-tung announcing formation People's Government. No Philippine Consul Peiping. So far as we know, only other representative omitted is Papal internuncio. Mao attempted to deliver notice to Pakistan, October 3 to Juddin but desisted when he stated he was agent only to arrange for Embassy premises and would have no diplomatic character until Pakistan Ambassador to Nationalist Government should arrive.

Filipinos concerned over snub and think Chiang-Quirino Conference⁶ may be reason, etc. More likely is fact Soviets have no relations with Philippine Government. However, notice has been given Portuguese Minister and also Austrian.

This Embassy has received no notice of inquiry with respect Chile and other Latin American Governments.

Would appreciate summaries Department's recent instructions Consulate General, Peiping, for own information and also for information friendly missions so far as permissible, as many deeply interested US attitude but uninformed except for VOUSA^{6a} broadcasts.

BACON

893.01/10-1049 : Telegram

*The Consul General at Shanghai (McConaughy) to the Secretary of State*⁷

SHANGHAI, October 10, 1949—2 p. m.

[Received October 10—3:39 a. m.]

4232. American Catholic Bishop Walsh told officer ConGen he has been informed by Papal Nuncio Riberi, Nanking, that latter has recommended immediate recognition Communist regime by Vatican as only hope for maintenance Church in China.

McCONAUGHY

893.01/10-1049 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, October 10, 1949—2 p. m.

[Received 3:44 p. m.]

1221. Deptel 693, October 7. I saw K.P.S. Menon, Secretary [of] Ministry External Affairs, today and communicated substance Deptel

⁶ For Conference between Generalissimo Chiang Kai-shek and Elpidio Quirino, President of the Philippines, see volume VII.

^{6a} Voice of America.

⁷ Repeated to the Special Assistant at Vatican City (Gowen) in Department telegram No. 18, October 11.

693. Menon said he was very pleased to have expression Department's view re recognition Communist Government China. He said that GOI felt recognition was something which was inevitable in light of present trend events China. He added, however, that he saw no reason for haste in recognizing Communist regime.

I asked if any decision might be made in absence Prime Minister. Menon replied that no decision would be made before return Indian Ambassador from China (Embtel 1025, September 6) which would not be before end October and that in any event he (Menon) considered decision re recognition Communist regime in absence Prime Minister "extremely unlikely" unless Prime Minister raised question during his absence which Menon considered improbable.

Menon remarked that there were probably not more than 1000 Indians in Shanghai and about 100 in Tientsin and that Indian economic interests in China were insignificant.

Decision re recognition China will be made by Prime Minister and basic factors which will determine this decision are fully set forth Embtel 1025.

Sent Department 1221; pouched Karachi. Department pass London.

DONOVAN

123 Ward, Angus I: Telegram

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

PEIPING, October 10, 1949—3 p. m.

[Received October 10—6:16 a. m.]

1707. Following text letter sent October 8:

"General Chou En-lai, Peiping:

SIR: The receipt is acknowledged your letter of October 1, 1949, stating: (Letter as given Contel 1665, October 2, from 'Mao Tze-tung' through 'all countries of the world' excepting that 'proclamation' was substituted for 'public statements' given in this office's first translation).

I promptly forwarded your letter and its enclosure to my Government as requested.

I take this opportunity to bring to your personal attention that the American Consul General at Mukden, Mr. Angus I. Ward, and his staff have been isolated in the consular compounds at that point since November 1948 for reasons unknown, resulting in the decision of my Government in May of this year to close that office and withdraw its staff; and that, in spite of specific assurances on June 21 from the Mukden authorities to the effect that necessary transportation facilities would be made available, Mr. Ward and his staff have to date been unable to depart. The US Government is deeply concerned with this situation, which is contrary to established principles of international

comity and which has been permitted to continue despite representations to the Chinese Communist Military Headquarters, and it is hoped that action will be taken by the concerned authorities promptly to rectify that situation. Respectfully yours, O. Edmund Clubb".

Letter was accompanied by unofficial Chinese language translation being forwarded Department by despatch.

Recommend no publicity at least for that part letter dealing with Mukden until Chou has been given opportunity act.

CLUBB

893.01/10-1049 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, October 10, 1949—6 p. m.

[Received 6:58 p. m.]

4062. Approach Foreign Office re Deptel 3663, October 7, delayed until this afternoon in hope of seeing Dening who, however, failed to appear and Embassy official received by Scarlett, head FE Department. When approached along lines final substantive paragraph Deptel, Scarlett readily admitted delivery note Central People's Government text of which identical with that given Department by French Embassy. His version substantially as follows:

Message originally drafted by Ambassador Stevenson and approved by Attlee in telegram to Nanking October 5 authorizing delivery appropriate time. At same time instructions pouched British Embassies Paris and Washington inform Quai d'Orsay⁸ and Department respectively. In delivering message CPG October 6, British ConGen Peiping acted too precipitously. Acc[ording] French Embassy, London, letter tantamount to *de facto* recognition and Foreign Office lawyers concur informally. However, Foreign Office official position will be message not meant to imply *de facto* recognition and meant merely as device establish informal relationship Communist authorities. Foreign Office believes CPG will not regard it as *de facto* recognition having gone on record it will not deal with any nation continuing recognize Nationalist Government.

Re Department view question might properly have been one for US-UK consultation, acc[ording] Bevin-Acheson understanding, Scarlett states subsequent receipt telegram from British Embassy, Washington, October 7 re above, he has read carefully records Washington conversations and in light of such records believes although question of *de jure* recognition requires consultation, consultation not contem-

⁸ French Foreign Office.

plated in case of *de facto* recognition. He was profusely apologetic for any misunderstanding brought about by careless handling and promised closer cooperation in future.

Embassy notes not only Foreign Office but also British authorities Nanking, Washington and Peiping failed inform American colleagues in advance of delivery of note to CPG. Difficult escape conclusion such failure deliberate. Does Department desire further representation to Strang⁹ or Bevin on latter's return, expected October 12?

HOLMES

893.01/10-1149 : Telegram

The Chargé in the Philippines (Hester) to the Secretary of State

MANILA, October 11, 1949—1 p. m.

[Received October 11—2:23 a. m.]

2373. Philippine Government received from People's Republic on October 10 formal request for recognition (Embtel 1515, June 14, and Embtel 2367, October 10¹⁰). In view of announcement of receipt of request following toast given at Double Ten¹¹ celebration and statements in press that Quirino was studying what reply should be given and would probably discuss question with members of his Cabinet, there was general speculation on what course of action the Government might adopt.

Embassy officer immediately contacted Neri¹² and stated that in view of general speculation would appreciate reaffirmation of Philippine Government's position on maintaining common front with US. Neri stated Philippine position remained unchanged and Government would keep Embassy completely informed. Embassy officer then asked [Neri] to let Embassy know immediately if there was any indication of possible change in Philippine position and whether any need consult directly with Quirino. Neri said he, of course, would do so and that he was meeting with Quirino the following morning at Cabinet meeting.

Neri phoned Embassy this morning to reconfirm that Philippine position remained unchanged and that he was meeting with Quirino later in the morning. Embassy officer will confer with Neri again afternoon following Cabinet meeting.

HESTER

⁹ Sir William Strang, British Joint Permanent Under Secretary of State for Foreign Affairs.

¹⁰ Latter not printed.

¹¹ October 10, anniversary of the Chinese revolution of 1911.

¹² Felino Neri, Philippine Under Secretary for Foreign Affairs.

841.65/10-1149

*Memorandum of Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)*¹³

[WASHINGTON,] October 11, 1949.

Participants: Mr. H. A. Graves, Counselor,
British Embassy
Mr. Merchant, FE
Mr. Freeman, FE

Mr. Graves called this morning after having requested an appointment on an urgent basis and handed Mr. Merchant the attached text of an official communication from the British Government to the Chinese Communist authorities in Peiping which was delivered by the British Consul General on October 5.¹⁴ Mr. Graves was obviously somewhat discomfited in presenting this text to us which it was apparent he was doing under urgent instructions from the British Foreign Office. The text of the communication appeared to be identical with that handed to Mr. Butterworth by Mr. Daridan of the French Embassy on October 6.

After examining the text, Mr. Merchant stated that from a layman's point of view it would appear that the sending of such a communication could be construed as constituting *de facto* recognition by the British Government of the newly established Chinese Communist regime. Mr. Freeman added that, at the very least, it would appear to be a definitive step toward recognition and as such might properly have been made the subject of consultation between our two governments, particularly in the light of the understanding reached between Mr. Bevin and Secretary Acheson that we would have "close and continuous consultations" on the subject of recognition.

Mr. Graves professed to have no personal knowledge as to the origin and development of the communication as he had been on the high seas at the time of its delivery to the Chinese Communist authorities and had only just returned to Washington. He stated, however, that the position of the Foreign Office was that the transmission of this note did in no way constitute a departure from the agreed position with respect to recognition and specifically did not, in the opinion of the Foreign Office, constitute *de facto* recognition of the Chinese Communists. He stated, furthermore, that the text had been received by the British Embassy only on Sunday, October 9, and that there had

¹³ In his memorandum of October 11 to the Executive Secretariat the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant) recommended that the Secretary of State read the "entire text" of the memorandum of conversation.

¹⁴ For text of British communication, see copy received through the French Embassy on October 6, p. 103.

been no opportunity to present it to the Department's attention prior to this morning. He further stated that it was his understanding that this note was not specifically a reply to the Chou En-lai note announcing the formation of the "peoples government" and bidding for international recognition. He added that it was intended rather to establish better *de facto* relations between the British consulates in Communist-occupied China and the local authorities.

Mr. Freeman pointed out that on a cursory examination the Department's concern would be primarily with the use of the term "Central People's Government" without quotation marks and the fact that it appeared to be a note from government to government. He recalled that, during the long period of non-recognition of the Japanese puppet regime in Manchuria, this Government only referred to the term "Manchukuo" in quotation marks.

Mr. Merchant stated that the Department would wish to study the text of the communication in some detail and that he would in all probability wish to discuss it with Mr. Graves at some future date.

Bringing up another subject, Mr. Merchant informed Mr. Graves that the Department had received a report from Hong Kong to the effect that "the Royal Navy would escort any British vessels bound for Shanghai and the territorial waters in the mouth of the Yangtze". He inquired of Mr. Graves whether the latter was in a position to confirm or deny this report since it had obvious implications with regard to American shipping in that area. Mr. Graves stated in reply that as far as he was aware the Royal Navy was not in fact escorting British vessels in that area; that to do so would be a reversal of what he understood to be established British policy in that regard; but that he would inquire of the Foreign Office immediately by telegraph as to the validity of the report and would communicate with us as soon as a reply is received.¹⁵

893.01/10-1149 : Telegram

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

PEIPING, October 11, 1949—5 p. m.

[Received October 12—11:48 a. m.]

1724. ReContel 1710, October 8. There seems good reason believe Communist leaders truly desire American recognition and regularization relations for both political and economic reasons, which this office has previously outlined. Note that, coincident with bid, since October 1, press has carried little anti-American material (excepting few serial features). First and obvious explanation would be that even anti-American items have been temporarily crowded off pages by

¹⁵ For correspondence on this matter, see pp. 1098 ff.

coverage establishment new government and state of pro-Soviet material. There may, however, also be some real shift in Communist propaganda line to aid People's Government's bid for recognition. Communists probably consider bid in itself constitutes important concession in terms political tactics (see Contel 848, July 19¹⁶ for Lo Lung-chi statement that Communists would not sue for recognition), and this should be taken into consideration in estimates of Communist motives. If Communists willing make concessions, reason would, as suggested above, be rooted in political and economic exigencies: They need at least moderately good relations with USA in more ways than one. This, of course, would not *per se* indicate any change in over-all political orientation whatsoever, but willingness make concession re propaganda might signify like willingness make others more substantial; and cessation virulent anti-American propaganda would in fact constitute one of posited necessary first steps (Consulate's reftel July 19) for smoothing of relations. Matter, of course, still subject to proof, as indicated, but will bear watching. No mention yet noted in Peiping press of Yugoslav recognition. This act probably embarrassing to Chinese Communists.

ReContel 1704, October 8, British Consul Graham, acting under instructions, informed Chou in note about October 6 that British Government had matter under study, referred to long history Sino-British relations, proposed that for immediate present "informal relations" be carried on through Consulate representatives. Note unseen, am uncertain of wording. Graham confirms, however, that he was instructed address official communication Chou and says that he therefore addressed Chou with assumed title, but without himself using his own title. (Letter in Chinese only, although Graham says he has since learned his original should have been in English by post-war rule.)

UK Consulate still in nonreceipt reply re audience.

CLUBB

893.01/10-1249 : Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Officers*¹⁷

WASHINGTON, October 12, 1949—11 a. m.

Announcement establishment of Chinese Communist central regime may result in renewal interest question of recognition. Dept believes

¹⁶ Same as telegram No. 1195, vol. VIII, "Political and military situation in China", chapter VI.

¹⁷ Sent to Ankara, Athens, Bangkok, Bern, Brussels, Cairo, Canberra, The Hague, Kabul, Lisbon, London, Manila, New Delhi, Ottawa, Paris, Rangoon, Rio de Janeiro, Rome, Seoul, Stockholm, and Tehran; repeated to Batavia, Hong Kong, Nanking, Peiping, Saigon, Singapore, and the United States delegation to the United Nations at New York.

that US Govt, having already made its views known and taken initiative in obtaining general concurrence that consultation with other interested friendly countries shld precede any action toward recog, shld in general not initiate discussion of question at this time. However, fol are present US Govt views this question for use by you in event you approached by Govt to which you accredited re US views or if you have reason to believe Govt to which you accredited contemplating independent action re recog Chi Commie regime without prior consultation :

✓ US views remain unchanged (originally set forth Depcirtel May 6 some or June 10¹⁸ other addressees this Cirtel). Announcement of establishment Chi Commie "Govt" long anticipated development and does not in US view lend any special urgency to consideration question recog by non-Commie countries. Development does however point up necessity interested friendly Govts, in their own interests, maintain common attitude respecting question. To this end US Govt emphasizes need for full exchange views prior any definitive or independent steps looking toward recog by other interested friendly govts.

For urinfo only, during mid-Sept Acheson-Bevin-Schuman talks, (a) Bevin pledged caution on recog but indicated Brit commercial interests and domestic pressures might force action different from that taken by US and (b) Schuman stated premature recog out of question because of French position in Indochina.

ACHESON

745.98/10-1249 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, October 12, 1949—4 p. m.
[Received October 12—12:22 p. m.]

4092. Indian High Commissioner informed American correspondent in confidence October 10 Nehru had (1) recalled Indian Ambassador China, (2) exchanged cordial messages with Mme. Sun Yat-sen¹⁹ and (3) sent favorable and friendly reply Communist Foreign Minister re establishment Central People's Government.

HOLMES

¹⁸ Latter not printed.

¹⁹ Member of Communist-sponsored Chinese People's Political Consultative Conference and a Vice Chairman of the "Central Government of the People's Republic of China".

893.01/10-1249 : Telegram

*The Chargé in the United Kingdom (Holmes) to the Secretary of State*LONDON, October 12, 1949—4 p. m.
[Received October 12—12:30 p. m.]

4094. Moscow's 2538 to Department October 7. Embassy concurs Moscow's views, we cannot, without detriment our long-range aims, continue indefinitely ignore Central People's Government and endorses course No. 4 paragraph 1 reftel, as satisfactory method approach which would at least help establish some sort of informal basis dealing with Communist officials and supply plausible excuse continued maintenance present large and competent staff in highly strategic area.

Desirability establishment some sort of liaison near future with CPG²⁰ accentuated by action British Consulate General, Peiping, in replying officially to communication re formation CPG (Embtel 4062, October 10). If British in forwarding reply CPG have seemed crack desired UK-US united front vis-à-vis Communists, perhaps we also should take early action along lines recommended by Moscow so that appearance of UK-US difference of view would be minimized, especially in Communist's eyes.

If any such course of action adopted, believed desirable inform British and French in advance order avoid further misunderstanding.

HOLMES

893.01/10-1249

Memorandum of Conversation, by the Secretary of State

[Extract]

[WASHINGTON,] October 12, 1949.

Recognition of China

The Prime Minister²¹ expressed the views which he repeated the next day in his conversation with the President that are outlined in that memorandum,²² and I refer to it here. His talk was clearly slanted toward early recognition. I told him that that was not our view, that we thought it important in this case not to believe that any advantage could be gained for the country in according early recog-

²⁰ Central People's Government.²¹ The Indian Prime Minister, Jawaharlal Nehru.²² October 18, p. 127.

nition, and that our primary concern here was to indicate by our conduct our deep interest and concern for the welfare of the Chinese people. I thought that this might be done by indicating in our handling of the situation that we were concerned for instance, that the Government actually did control all of China and that by early recognition we were sacrificing the interests of some portions of the country which were still attempting to maintain its independence of Communist control. Then, too, we should show our concern that the Government should establish some form of acquiescence by the Chinese people. While this might be something which could not be done, it was important that the Chinese people should know we were thinking in these terms. Finally, the Government should be required to state its international obligations. He asked how we could bring our own attitude to the attention of the Chinese people. I thought that this might be done both through the Voice of America and by printed material which could be circulated. He doubted whether such material could be effectively circulated. His general attitude seemed to be that since recognition was doubtless inevitable, there was little purpose in postponing it by diplomatic maneuvers.

893.01/10-1249 : Telegram

The Chargé in the Netherlands (Steere) to the Secretary of State

THE HAGUE, October 12, 1949—7 p. m.

[Received 8:03 p. m.]

937. Foreign Office says Netherlands representative who has been designated to proceed from Canton to Chungking²³ will first go to Hong Kong "for consultation with his colleagues". Official stated that Netherlands Government had not deviated from principle that it should have representative at Nationalist Government seat, but that it wanted a margin of time to see what would happen. He said, "Perhaps the Nationalist Government will collapse in the next few weeks."

Official expressed some surprise that British Government had instructed its representative in Peking to contact Communist government, which amounts to virtual *de facto* recognition. British had informed Netherlands of these instructions, but Netherlands did not regard British step as the close cooperation "with consultation" that is supposed to exist between Western Powers on this matter.

²³ The Chinese Government was moving to Chungking from Canton; see telegram Cantel No. 1189, October 11, 1 p. m., vol. VIII, "Successive moves of the Embassy office in China in efforts . . ."

In general, official said, Foreign Office believes eventual recognition Communist government inevitable, but timing is important. He repeated former assurances (Embtel 881, October 4) that Netherlands Government would take no precipitate action or initiative.

Sent Department 937, repeated London 99.

STEERE

893.01/10-1349 : Telegram

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

PEIPING, October 13, 1949—10 a. m.

[Received October 13—9:50 a. m.]

1733. Re Contel 1724, October 11. French Consul informs that he was received October 11 at Foreign Office on 2 hours' notice by Huang Siang (Chief EUS Division) and Wang Ping-nan (Chief General Affairs Section) on behalf Chou En-lai. He was received with all courtesy by two officials who excused Chou on grounds he was too busy with current affairs. French Consul set forth purpose his visit (unindicated in advance) as stated Reftel including matter use codes. Officials stated they would refer matter higher authority. French Consul further took up matter of getting transfer his Mukden colleague to Peiping to relieve him who is scheduled proceed him [*home?*] on leave and officials indicated like action would be taken.

Italian Consul confirms that he communicated with Chou asking receipt communication and reporting its transmittal.

British Consul confirms his second letter stated British Government was studying new situation created by establishment new government (not studying Chou's letter) and confirmed likewise that proposal re informal relations with Consulate officers bore implication of being interim procedure to be used pending decision with respect new situation.

CLUBB

893.01/10-1349 : Telegram

The Chargé in the Philippines (Hester) to the Secretary of State

MANILA, October 13, 1949—2 p. m.

[Received October 13—1:52 a. m.]

2392. After Cabinet meeting Neri again assured Embassy that common-front position regarding recognition People's Republic will be adhered to by Philippine Government (Depcirtel June 10²⁴ and Embtel 2373, October 10 [11]). Neri expressed desire to be kept

²⁴ Not printed, but see circular telegram of May 6, p. 17.

informed on developments so that Philippine Government could be guided on common-front action. He asked whether US considered request for recognition should be simply ignored or should be acknowledged. He stated that he was particularly interested in learning action of India, Pakistan and Burma on receiving requests for recognition.

Department is accordingly requested to advise Embassy what position should be taken with respect to Philippine participation in common approach.

HESTER

893.01/10-1349 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, October 13, 1949.

[Received October 13—3:20 p. m.]

1239. GOI issued following press note today.

“A request has been received from the People’s Central Republic of China through the Indian Ambassador in Nanking for recognition of that government as the legal government of the people of China and for establishment of diplomatic relations. The Government of India have informed the government of the People’s Central Republic of China that they are studying the situation that has arisen and in this connection have summoned their Ambassador in Nanking for consultations. The Government of India have expressed the hope that informal contacts would continue to be maintained between the newly formed government and our consular representatives.”

DONOVAN

893.01/10-1349

Memorandum of Conversation, by the Secretary of State

[Extracts]

[WASHINGTON,] October 13, 1949.

Participants: The President
Secretary Acheson
Prime Minister Nehru
Sir Girja Bajpai

The President received Prime Minister Nehru at 4:30 this afternoon. Sir Girja Bajpai and the Secretary of State were present. The interview lasted three-quarters of an hour.

China. The conversation then turned to the situation in China. The Prime Minister expressed his view that the basic situation in China was that the agrarian revolution, which had begun many years

ago but had been intensified in 1911, had been so mishandled by the Kuomintang that power had fallen by default in the hands of the Communists. He thought that they were not desired in China but were accepted in the absence of any other apparent force interested in dealing with the problem. He thought that Communism was alien to the Chinese mind and that foreign domination would be deeply resented. He believed that the course of events would restore Chinese nationalism as a governing force and would weaken the subservience to Moscow.

In regard to recognition, he thought that India's proximity to China put India in a somewhat different position from that of other countries and indicated a leaning toward early recognition. The President hoped that this was a matter in regard to which the non-Communist countries could consult and if possible concert their action. The Prime Minister agreed that there should certainly be consultation.

893.01/10-1349 : Telegram

The Special Assistant at Vatican City (Gowen) to the Secretary of State

VATICAN CITY, October 13, 1949.

[Received October 15—11:44 a. m.]

43. Deptel 18, October 11, re China.²⁵ Matter mentioned by me to Montini, Vatican Under Secretary State, today. He said case extremely serious and some days required for answer.

GOWEN

893.01/10-1449 : Telegram

The Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, October 14, 1949—4 p. m.

3722. Pls deliver fol msg from Secy to Bevin earliest opportunity :

"I was concerned by the text of msg from Brit Govt to Chi Commie auths Peiping, apparently in reply to Commie invitation for recog, copy of which furnished Dept on Oct 11 which was 6 days after delivery of msg in Peiping. The phraseology of the note, regardless of reception by Chi Commie auths, appears to imply *de facto* recog although the FonOff has assured us that such was not the intent. I feel confident that this step was not intended as a departure from the understanding previously reached between US and UK and confirmed in our own conversations in Washington and New York with respect to

²⁵ See footnote 7, p. 116.

the importance of avoiding eagerness in approaching question recog, the necessity for close and continuous consultation, and the desirability of common course of action insofar as possible. Nevertheless, there is little question that any indication of independent action by one of Western Powers having similar interests in Far East wld be exploited to full by Chi Commies and wld inevitably have adverse effect on resolution and cooperation of independent Asiatic countries.

"In giving you my frank views on this circumstance, I wish to reiterate the hope that any future actions contemplated by UK re question recog be preceded by the full consultation envisaged in our earlier discussions and to assure you that US Govt fully intends to do likewise."

ACHESON

893.01/10-1349 : Telegram

The Secretary of State to the Chargé in the Philippines (Hester)

WASHINGTON, October 14, 1949—7 p. m.

1246. Re ur 2392 Oct 13, you may give Neri fol info:

Commie regime Peiping in letter Oct 1 sent to our ConGen, as well as other foreign reps there, invited recognition. Our ConGen in personal capacity merely replied he was forwarding message to USGovt.

Formal estab of a central Commie regime in China at this time was not unexpected development and we believe there shld be no haste in recognition regime. US Govt has in past been in frequent consultation with other interested and friendly govts on developments in China and we have every expectation that these consultations will continue in a normal manner. In seeking agreement with friendly powers to prior consultation we have had in mind complicated aspects of this particular problem and fact that any action taken shld not be based on fallacy that the first come wld be the better served.

We assume that before giving serious consideration recognition friendly govts would wish to satisfy themselves that such a regime wld fulfill conditions generally recognized minimum:

- (1) Chi Commie regime has established effective control over China.
- (2) It has shown by actions it respects interna[tiona]l obligations and intends honor them.
- (3) It has demonstrated satisfactorily it will conduct its interna[tiona]l relations in conformity established concepts of dipl[omatic] community.
- (4) Convincing evidence obtained this recognition wld result in marked improvement recognizing govt's ability protect its interests.

Meanwhile, it is noted that the announcement of inauguration of a central Commie regime contains no assurances that regime is prepared

assume internatl obligations which devolve upon a govt of China, nor has its actions to date given basis for optimism re its intentions. It is also noted that large areas of China remain under control friendly Govt with which we maintain dipl relations.

ACHESON

893.01/10-1549 : Telegram

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

Moscow, October 15, 1949.

[Received October 15—10:18 a. m.]

2601. In connection British note to Peiping Government (Department infotels October 14, 4 a. m., and 4 p. m.²⁰) we feel it is impossible to avoid conclusion that British have deliberately taken strong step toward recognition or at least establishment satisfactory working relations with CPG despite very recent agreements to make no move without consultation. Fact that Department was not approached by British Embassy Washington until 4 days after delivery note to CPG suggests British well aware of unfavorable reception.

British action in sending note may indicate British determination not to be maneuvered by us into position of sharing our current unpopularity in China through participation in what British may consider to be unnecessary and undesirable pressure activities. British action seriously compromises highly desirable and previously agreed upon policy of coordinated Western action toward CPG.

We agree with London Embassy that if we are to attempt to hide schism which in fact has developed only step we can take now is to make somewhat similar approach. However, we do not recommend addressing any note to CPG as such. Nor do we believe that unilateral nature of British approach can successfully be concealed at this time.

We feel that British approach reveals anxiety to profit by trade on short term basis at expense of grave long range policy considerations, that their commercial honeymoon with CPG will be short-lived and of little or no permanent advantage to British, except that Chinese pressure on Hong Kong may be postponed until period when CPG will be obliged to handle matter through diplomatic channels. Urge we continue to exert every effort to win British cooperation with our proposed policy not to bolster CPG economy, which would assist CPG in solving its economic problems and would reduce onus on USSR to extend help to China.

²⁰ Neither printed.

Our view USSR and CCP must be delighted with British approach to CPG, and possibility of propaganda exploitation to embarrassment of West, not to mention British relations with Chinese Nationalist Government, is obvious.

Department pass London 285, Paris for Kirk ²⁷ 370.

BARBOUR

893.01/10-1749

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] October 17, 1949.

Mr. Reuchlin²⁸ called by appointment this morning and handed me the attached document representing a note which, he said, the Netherlands Foreign Office had instructed its consular representative at Peiping to hand to Chou En-lai "within three or four days". He explained that this probably meant that it would be delivered today or tomorrow. He said that he had been instructed by his Foreign Office to ascertain the Department's reaction to the note.

I told Mr. Reuchlin that this note seemed to go far beyond what we considered desirable under present circumstances and that it, in fact, seemed to represent a departure from the common front agreed upon in the approach of the Western Powers to the Chinese Communists. I reviewed the British action in acknowledging the bid for recognition from the Chinese Communists and explained that we had merely instructed our Consul General at Peiping to acknowledge the note from the Communists and state that he was forwarding it to his government for consideration. I said that the Netherlands note seemed to be particularly undesirable in that its reference to the promotion of mutual trade would probably further the Chinese Communist view that the Western Powers considered trade with China vital to their interests. I asked that he convey this reaction to his Foreign Office and express the Department's view that this seemed undesirable from the standpoint of the Western Powers in their relations with the Chinese Communists.

In reply to my inquiry, Mr. Reuchlin said that this note was probably sent after discussion of the matter with the British Government. He further stated that it was now probably too late to prevent the delivery of this note but that he would inform the Foreign Office of our views in this regard.

²⁷ Alan G. Kirk, Ambassador to the Soviet Union.

²⁸ Jonkheer O. Reuchlin, Netherlands Minister.

[Annex]

Draft of Note From the Netherlands Consular Representative at Peiping to Mr. Chou En-lai

The new situation resulting from the recent formation of the Central People's Government forms an object of careful study by the Netherlands Government.

With a view to continuing the friendly relations which have always existed between the Netherlands and China, the Netherlands Government suggests that, pending completing of its study, the Netherlands consular officers in the territory under the control of the Central People's Government take up informal contacts with the local authorities. In the opinion of the Netherlands Government such a provisional arrangement may contribute to the promotion of mutual trade and would be advantageous for both Governments.²⁹

893.01/10-1749

Memorandum by the Secretary of State of a Conversation With President Truman

[WASHINGTON,] October 17, 1949.

UK RECOGNITION OF CHINA

The President had already seen my telegram to Mr. Bevin on the China recognition matter.³⁰ He had noted that the Soviet reaction was that the British note amounted to recognition. He thought that the British had not played very squarely with us on this matter.

D[EAN] A[CHESON]

893.01/10-1749 : Telegram

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

PARIS, October 17, 1949—7 p. m.

[Received 8:45 p. m.]

4335. Baeyens³¹ tells us delivery British note Chinese Communists came as no surprise to Foreign Office as British here had on October 5 shown them draft of note. (According to Baeyens, this information was telegraphed French Embassy, Washington.) French consider

²⁹ On November 1 the Department was informed by the Netherlands Embassy that the last word of this draft was changed from "Governments" to "peoples".

³⁰ Telegram No. 3722, October 14, 4 p. m., p. 128.

³¹ Jacques Baeyens, Head of Asia-Oceania Section of the French Foreign Office.

and so told British that note amounted to *de facto* recognition and was contrary to both letter and spirit of Washington conversations.

While he believes British action has strengthened position of those French circles advocating early recognition Mao government (including former French Ambassador and Military Attaché at Nanking), Baeyens' personal view, which he says is largely shared by Parodi,³² is that French should not be stampeded into similar actions but should follow their previous policy of non-recognition pending assurances from Communists re observance of treaties, etc. He added that he did not think this was moment to break relations with Nationalist Government. He said decision on French position will be made next week "when I hope we will have a Foreign Minister".

Dutch Ambassador called on Baeyens today and read him note "very similar to British note". Dutchman was, however, unable to say when note had been or was going to be delivered in Peking.

Sent Department 4335, repeated London 724, Hague 52, Department pass Moscow 211.

BRUCE

893.01/10-1849 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, October 18, 1949—3 p. m.

[Received October 19—7:51 a. m.]

1255. Percy Wood, Delhi correspondent *Chicago Tribune*, called Embassy October 17 stating Colonel McCormick³³ of *Chicago Tribune* had telegraphed him he had received information from Chinese source (former mayor Shanghai) that British Government was pressing GOI to recognize China promptly. I told Wood we had no information which would substantiate such statement.

Wood saw K.P.S. Menon³⁴ later same day and asked Menon if British were putting pressure on India to recognize Communist Government China. Menon replied that he could not say that British were exercising pressure; that British were keeping GOI fully informed their policy; and that he (Menon) was sure British hoped India would take action consonant with, and simultaneous to, British this question. Menon added that in view British economic position China he felt British policy tended towards early recognition and that naturally Britain would like to have as many countries as possible follow Britain.

³² Alexandre Parodi, Secretary General of the French Foreign Office.

³³ Col. Robert R. McCormick, editor and publisher of the *Chicago Tribune*.

³⁴ Krishna P. S. Menon, Indian High Commissioner to the United Kingdom.

Deptel 712, October 14.³⁵ Recall of Indian Ambassador from China requires no comment from Embassy as there is nothing unusual this action.

Regarding Nehru's exchange messages Mme. Sun Yat-sen, nothing known by either Embassy or UK High Commissioner. In this connection Roberts, Deputy UK High Commissioner, remarked Krishna Menon was not an especially reliable source of information but Roberts does not discount possibility that Prime Minister wrote such a letter.

Regarding "favorable and friendly reply" sent by GOI to Communist Foreign Minister, Embassy does not attach undue importance that statement (Embtel 1239 October 13). See Embassy airgram 1068, October 18.³⁶

Roberts told me today he saw no indication precipitate action by GOI recognition China. Roberts feels regarding GOI that "they are going along". This probably means they are going along with British policy regarding recognition China before Nehru's return and Roberts has had some information from Menon. Pannikar [*Panikkar*], Indian Ambassador to China, is due arrive India early November accompanied by British Ambassador to China. It was suggested to Pannikar that he stop off at Singapore and attend conference British Ambassadors, High Commissioners, *et al*; to which Pannikar replied that it would be useless for him to do so since he had no instructions regarding Indian policy recognition China and that he could expect no instructions until Nehru returned India. Pannikar's reply undoubtedly included instructions other subjects to be considered by Singapore conference but Pannikar specifically mentioned question recognition China.

Sent Department, Department pass London.

DONOVAN

893.01/10-1849 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, October 18, 1949—4 p. m.

[Received October 18—1:36 p. m.]

4173. In compliance with Deptel 3722, October 14, I conveyed the Secretary's message to Bevin personally this morning. He was surprised that we had not been consulted before despatch of British note

³⁵ It repeated telegram No. 4092, October 12, 4 p. m., from the Chargé in the United Kingdom, p. 123.

³⁶ Not printed.

to Chinese Communists, admitting frankly that such action is contrary to understanding reached with Secretary in Washington. Dening³⁷ was sent for and offered apologetic explanation that because of procedural error instructions to British Embassy in Washington had been sent by airgram instead of cable, which accounted for fact that we were not notified in advance.

Bevin asked that the Secretary be assured that he had given firm instructions which he repeated orally to Dening that no steps were to be taken with respect to Chinese Communist government without prior consultation with US. He pointed out that his agreement with the Secretary was for prior consultation not necessarily prior agreement.

DOUGLAS

893.01/10-1849 : Telegram

The Chargé in the Netherlands (Steere) to the Secretary of State

THE HAGUE, October 18, 1949—6 p. m.

[Received 6 :26 p. m.]

968. Having read last paragraph Paris 4335, October 17 to Department, we inquired at Foreign Office concerning proposed Dutch action re Chinese Communist government which seemed to be diametrically opposed to what we had been told by Foreign Office twice recently. (See Embtels 881, October 4 and 937, October 12.) Acting chief Political Section apologized for not having informed Embassy of Netherlands' decision to follow British pattern re contact with Communist government in Peking. Official said that Netherlands Embassies Washington, Paris and Brussels (but not London) had been instructed to approach respective Foreign Offices on matter with view to consulting before taking action. Official remarked that this was more in spirit of agreed cooperation than British approach to Chinese Communists.

Official stated that Department's reaction had not been favorable and that Quai d'Orsay had been critical, but less than Department, of Netherlands' proposed action.

He said that Dutch intend to go ahead and instructions will be sent to their representative in Peking to contact Communist Foreign Minister there. Dutch representative will not present written document but only suggest orally that contact be established and maintained between Netherlands consulates in China and Communist government.

³⁷ Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs.

Official said that Netherlands had not been precipitate [and had] not taken initiative in this matter. They still think, however, that the British did not play ball by taking action and informing other powers afterwards. Dutch official concluded by stating that Netherlands was being forced to establish contact with Communists because British had already done so.

Sent Department 968, repeated London 106, Paris 72, Moscow 6.

STEERE

893.01/10-1949 : Telegram

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

PARIS, October 19, 1949—5 p. m.
[Received October 19—2:41 p. m.]

4367. Baeyens tells us that in preliminary consultations on future French policy re French recognition Chinese Communist government considerable attention being given to repercussions recognition would have in Indochina (Embtel 4335, October 17). Pignon³⁸ has advised Foreign Office that early recognition would constitute important moral support to Vietminh to detriment Bao Dai.³⁹ He is urging that recognition be postponed as long as possible and at least for next few months.

Sent Department 4367, repeated London 732; Department pass Saigon 138.

BRUCE

893.01/10-1949 : Telegram

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

ROME, October 19, 1949—6 p. m.
[Received October 19—2:46 p. m.]

3297. Depcirtel October 12, 11 a. m. Secretary General Foreign Office has assured me Italian Government (reference 1335, May 6) does not propose independent action re recognition Chinese Communist regime without prior consultation US. He would appreciate having as soon as possible any further views that we may have in that regard.

DUNN

³⁸ Léon M. Pignon, French High Commissioner in Indochina.

³⁹ Chief of State of Vietnam.

893.01/10-2149 : Telegram

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

SHANGHAI, October 21, 1949—5 p. m.

[Received October 21—9:41 a. m.]

4466. Over-all impression I gained from casual conversations with several Nanking diplomats who came to Shanghai to embark on British evacuation ships *Shengking* and *Wing Sang* October 18 was that they are rather impatient for early recognition Communist regime and are generally disposed to recommend unreservedly to their Government that recognition be accorded in the not distant future.

I was impressed by fact that some of the diplomats seemed to consider *de facto* control of preponderance of area and population of China to be sole determining factor in deciding recognition issue with little weight accorded to other factors to which we attach importance such as ability and willingness of regime to carry out international obligations, its independence of foreign domination and extent and degree of support of Chinese people enjoyed by regime. It was disturbing to note their casual and even cavalier attitude toward indignities we have suffered at hands of Communists, particularly detention of our consular staff at Mukden. It hardly seemed to occur to some of foreign diplomats that such outrages when continued without rectification might serve as deterrent to recognition. One of them remarked jocosely that ConGen Ward was Sinophile and Sinologue and probably was able to carry on enough enjoyable researches very congenial to him during his detention.

While cogent case could be made for recognition on terms providing some reasonable degree assurance Communist respect for our more fundamental interests, there was little evidence that Nanking foreign diplomats were approaching recognition question in other than happy-go-lucky manner, with little thought as to what their countries might be "getting into" or the importance of determining and holding out for minimum *sine qua non* conditions for recognition.

Desire make clear that above represent an impression of general frame of mind gained from informal bandying "cocktail" conversation with frequently changing groups rather than summary of statement definitely identifiable as considered views of specific individuals.

McCONAUGHY

893.01/10-2149 : Telegram

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

SHANGHAI, October 21, 1949—5 p. m.

[Received October 21—7:35 a. m.]

4467. Close local American friend of Indian Ambassador Panikkar quoted him as predicting in confidence shortly before he embarked for India on October 18 that all Commonwealth and most European and Asiatic countries would recognize Chinese Commie regime by December 15. He predicted US would follow suit within few weeks thereafter. Panikkar reported casting about for suitable site for Indian Embassy in Peiping. House hunting by other missions as well reportedly has stimulated Peiping real estate market.

MCCONAUGHY

893.01/10-2449

Memorandum of Conversation, by the First Secretary of Embassy in the United Kingdom (Ringwalt)⁴⁰

[LONDON,] October 21, 1949.

Under instructions from the Chargé d'Affaires I called at the Foreign Office to discuss with Mr. Dening certain aspects of the transmission by the British Consul General at Peiping of the note to the Chinese Communist authorities there, suggesting the establishment of informal relations between the two governments. I informed him that it seemed that doubt still existed in the minds of some of our people dealing with Far Eastern problems that someone in the Foreign Office might have "pulled a fast one."

Dening replied that he had "hoped that Mr. Bevin had lain that ghost" in his conversation with Ambassador Douglas. (Embtel 4173, October 18, 1949). He denied emphatically that any skulduggery had been intended anywhere along the line, but admitted that his overworked and undermanned staff had committed two stupid errors: (1) the Foreign Office instruction to the British Embassy at Washington containing the text of the note to be shown to the Department of State had inadvertently been sent "Saving" (by air mail) instead of being telegraphed, and (2) the Far Eastern Department had blundered outrageously in not checking with its Legal Adviser who, as has already been pointed out (Embtel 4062, October 10, 1949), is of the opinion that the note as delivered amounted to *de facto* recognition. He reiterated what already had been stated by Mr. Bevin to the Am-

⁴⁰ Copy transmitted to the Department by the Ambassador in the United Kingdom (Douglas) in his despatch No. 1688, October 24; received October 29.

bassador that the delivery of the note was in fact in violation of the Bevin-Acheson agreement to consult not only with regard to recognition of the Chinese Communist regime at Peiping but on all matters of concern to the United States and the United Kingdom in the Far East.

Dening volunteered that, although the conference to be held in Singapore in November (Embassy's telegram No. 4197, October 19⁴¹) was to have no formal agenda, one of the questions to be discussed there would be the implications of the recognition by the United Kingdom of a central Chinese Communist government on the position of the British Empire in the Far East. Certainly no recognition by the United Kingdom of the Chinese Communists would take place until the conclusion of that conference.

I mentioned that I personally was not too impressed by what seemed to me to be specious arguments, advanced by certain British officials, differentiating between *de jure* and *de facto* recognition, to the effect that whereas *de facto* [*de jure?*] recognition would under the Bevin-Acheson agreement be a matter for consultation between the two governments, *de facto* would not.⁴² Dening replied with some asperity that if any British official in Washington or London had advanced such an argument he had done so without authority.

In conclusion, I said that, regardless of the facts of the case, what concerned me most was that the incident was indicative of what I felt to be a distressing lack of coordination, on a working level at least, between our two governments and that I hoped we could do better in the future. Mr. Dening assured me of his entire cooperation.

893.01/10-2149 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, October 21, 1949—7 p. m.
[Received October 21—2:16 p. m.]

4235. Embtel 4173, October 18. In further conversation with Dening this afternoon he stated emphatically that Bevin-Acheson understanding reached in Washington would include consultation in

⁴¹ Not printed; it described the frame of reference for the forthcoming Singapore conference as "merely another regional conference of chiefs of mission, area military commanders and colonial governors" (701.4100/10-1949).

⁴² Marginal notation: "Scarlett of FonOff told us *de facto* recog. did not require consultation". See telegram No. 4062, October 10, 6 p. m., from the Chargé in the United Kingdom, p. 118.

advance regarding *de facto* as well *de jure* recognition Chinese Communists. Memorandum of conversation by air.⁴³

HOLMES

893.01/10-2149 : Telegram

The Secretary of State to the Chargé in the Netherlands (Steere)

WASHINGTON, October 21, 1949—8 p. m.

922. Nether Min on Oct 17 handed Dept copy of note which, he said, Neth FonOff had instructed its Cons rep at Peiping to hand to Chou En-lai, "FonMin" of new regime. Fol is text note:

[Here follows text of draft printed on page 132.]

Emb shld send FonOff note along fol lines:

Dept State has noted text of msg from Neth Govt to Chi Commie auths Peiping, apparently in reply to Commie invitation for recog, copy of which was furnished Dept on Oct 17 by Neth Emb at Washington. Dept feels confident that this step was not intended as a departure from the understanding previously reached between US and Neth in May last with respect to importance of avoiding eagerness in approaching question of recog, the necessity for close and continuing consultation and the adoption to the extent feasible of a common front re relationship with Commie regime.⁴⁴

Emb shld then state that, in reporting this comment, it wishes to reiterate hope that any future actions contemplated by Neth re question recog be preceded by full consultation envisaged in earlier discussions between two Govts and give assurance that US Govt fully intends to do likewise. For ur info, we have raised this matter with Brit also.

ACHESON

893.01/10-2149 : Airgram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, October 21, 1949.

[Received November 2—11:47 a. m.]

A-490. On October 20, 1949, in a press conference Prime Minister Phibun discussed the problem of recognition of the Chinese Communist Government. He emphasized the need for great caution and indicated a desire to move slowly. According to the press report, he

⁴³ *Supra.*

⁴⁴ This note was transmitted on October 25 to the Netherlands Government by the American Embassy at The Hague.

stated that Thai recognition depends on two factors. They are: (1) Whether or not the Communist Government really represents the Chinese people and is governing in the interests of the majority of the Chinese people; (2) Whether the Communist Government is accorded a favorable reception in the United Nations. While it is not clear to the Embassy why or how membership in the United Nations must precede recognition by individual countries, yet the obvious implication is that Phibun intends to take no action until it is quite clear that the majority of nations and particularly the Great Powers have publicly committed themselves to recognition.

There is quoted below the text of the press report of the conference which appeared in the English-language, *Liberty* newspaper:

"The Premier stated that Thailand could not afford to make a hasty decision in regard to so important a question as this and that time and consideration should be given since it involved international understanding.

"The Premier said that the recognition of the newly established Communist government depended on,

"(1) Whether the Chinese Communist Government really represented the people, whether it was administering the country solely in the interests of the people as a whole and whether it really had the support of the majority of the people.

"(2) Another main point that would have to receive careful and lengthy consideration was whether the Chinese Communist government would receive recognition from UNO⁴⁵ or not.

"The Government was desirous of avoiding all political implications and was in a position unlike Soviet Russia and her satellite countries which had promptly accorded recognition to the Chinese Communist Government almost immediately after its establishment. The Premier stated that Russia's action was only natural since it had similar political ideologies and Russia wished to give the lead to other countries of the world in the matter and thus pave the way for the Chinese Communist Government to establish diplomatic relations with foreign countries.

"The Premier stressed that Thailand is a small country and must therefore be certain of her step before making any move.

"The Premier further stated that, if possible, he would like to see the Chinese Communist Government a member of UNO, or accorded recognition by UNO, before making any move in the matter. He is of opinion that as Thailand is a member-nation of UNO, it would be unseemly for Thailand to extend recognition to a government that was not recognized by UNO. He also said that as the Chinese Nationalist Government is a fellow-member, it would be most irregular and, in fact, impossible to give recognition to two governments established in the same country."

STANTON

⁴⁵ United Nations Organization.

Editorial Note

In his telegram 224, October 24, from Canberra (not printed), Ambassador Jarman informed the Department that in accordance with the Department's circular telegram of October 12 he had seen Foreign Minister Evatt and urged upon him the importance of concerted action toward the Chinese Communist regime. Mr. Evatt in turn had given the Ambassador a note stating that Australia's views accorded very largely with those of the United States. The note went on to say that Australia saw no great need for urgency in recognizing China but felt such a step should not be unduly delayed if delay were to involve a worsening of the bargaining position of the Western Powers, who ought to use recognition as a tool for obtaining, through negotiations, undertakings from the Chinese Communists to respect the political integrity of neighboring areas, especially Hong Kong. Indeed, Australia, the note continued, would urge that such negotiations be commenced immediately with the Chinese Communists and stressed the desirability of United States-Australian consultations so that concerted action could be taken. (893.01/10-2449)

893.01/10-2449

Memorandum of Telephone Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

WASHINGTON, October 24, 1949.

Mr. Collins⁴⁶ telephoned this afternoon to inform me of the nature of the Canadian Government's reply which the Department of External Affairs had instructed be made in Peiping, presumably by the British consul at that city.

The instructions sent to Peiping on October 22 provided for an oral acknowledgment of receipt of the Communist note to be made to "a responsible officer of the Foreign Affairs Bureau" of the Chinese Communist regime. It was specifically requested that the consul avoid in so far as possible the implication that the official status of the Communist regime was being recognized by the Canadian Government. Mr. Collins further stated that the consul was to inform the responsible official that the note was being studied by the Canadian Government and that, in the meantime, it was hoped that Canadian consular officers in China might be permitted to carry out their normal functions in accordance with accepted international law.

⁴⁶Ralph E. Collins, Second Secretary of the Canadian Embassy.

Mr. Collins added that this stand on the part of the Canadian Government appeared to fall somewhere between that which had been adopted by the British Government and that of the U.S. Government.

893.01/10-2549 : Telegram

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

PEIPING, October 25, 1949—4 p. m.
[Received October 26—6:16 a. m.]

1822. ReDeptel 710, October 14.⁴⁷ British Consul here apparently uninformed re Indian reply to recognition bid. Deduce general Indian position was probably indicated in Nehru's October 18 statement that Indian Government like any other government "cannot ignore realities". Note further (1) underlying Indian sympathy for another Asiatic country having many problems basically similar to India's own; (2) probable desire Government India, possessing long common frontier with China, effect early stabilization relations with latter with aim avoiding as much trouble as possible; (3) political position of India to left both USA and UK is perhaps intimated by Indian stand in UN on both Vietnam and North Korea re ECAFE.⁴⁸ Note finally India is without established interests China under attack except in Sinkiang, and in that relatively unencumbered state probably sees little promise profit, but instead some dangers in holding back on recognition for reasons they might judge connected with power politics. It would seem to appear urge in Indian Government is toward early recognition.

Take occasion refer Contel 1710, October 8, and respectfully note that seems against Peiping background be danger overstraining on Western recognition united front which has already shown signs weakness this regard. Believe attempt achieve impossible might lead to American diplomatic reverse, and that any effort cause non-Soviet powers generally to withhold recognition either indefinitely or for long period would fall in category impossible. Accepting our own view international law this regard, observe (1) by time Chinese stand against USSR in UN is terminated position Nationalist Government Chungking will in all probability be patently hopeless. (2) There has never before been exacted as prerequisite for recognition China's various governments the position that new rule should have consent governed, there never having been general election and therefore

⁴⁷ This telegram repeated telegram No. 4092, October 12, 4 p. m., from the Chargé in the United Kingdom, p. 123.

⁴⁸ Economic Commission for Asia and the Far East.

popularly approved government in China's known history, and (3) Communist willingness to abide by international law and accept international obligations is still to be clarified. In circumstances believe that maximum coordination now assured is prior consultation without necessarily prior agreement as accorded by British (Depintel October 19, 4 a. m.⁵⁰) and that logical optimum achievement would be on level joint effort by interested non-Soviet governments to get principal clarification of Communist position re international obligations. Communists would be most apt make concessions this regard if there were something in nature parallel stand by interested powers, and this I believe should be undertaken early because of manifest impatience some interested governments. Such undertaking would probably incidentally slow up recognition tendency. This seems feasible move and joint effort this respect might, depending on developments, lead in due course to increased cooperation vis-à-vis Communist China, whereas to attempt more at this stage would probably overstrain patience and endurance our natural allies.

Re Depintel October 17, 8 a. m.,⁵⁰ note that hypothetical recognition would not *ipso facto* lead of necessity to rendering economic aid to Peiping regime. Believe on contrary that any American recognition should basically be designed for purpose maintaining contact with situation for possible joint exploitation as indicated Conreftel October 8, that although trade with Communist China even as Eastern Europe should be made possible within framework statement outlined Depcirtel October 14, 5 a. m.⁵⁰ There should be no gratuitous assumption of Chinese as economic burdens, that as implied Conreftel October 17 full weight of those economic burdens should be left on back USSR for so long as China maintains present political orientation and USSR thereby enjoys special political influence this country. Believe that thus qualified recognition holds no danger political or economic loss to USA, but that without recognition our maneuverability in Asia would be more untrammled than if political contacts were maintained. *(not confirmed)*

CLUBB

893.01/10-2549 : Airgram

The Ambassador in Korea (Muccio) to the Secretary of State

SEOUL, October 25, 1949.

[Received November 10—2:40 p. m.]

A-336. Re: Embassy telegram No. 1144, September 13, 1949. During conversation with an Embassy officer on October 24, President

⁵⁰ Not printed.

Rhee expressed great concern at possible recognition of communist China by the United Kingdom or at possible attempts by Northwest Airlines to land in communist-held China.

Dr. Rhee said that if the United Kingdom should recognize communist China he thought that his Government would have to sever diplomatic relations with the United Kingdom. He said the big democratic countries could afford to temporize with the communists, but Korea could not; Korea had "burned her bridges" and intended to oppose the communists without compromise.

As regards rumors he had heard that Northwest Airlines was considering securing landing rights in Tientsin or Peiping, President Rhee said that if NWA tried to land in Chinese communist territory after using Kimpo Airport as an intermediary landing point, he would find it necessary to cancel existing landing rights of NWA in Korea.

MUCCIO

893.01/10-2649 : Telegram

The Ambassador in Australia (Jarman) to the Secretary of State

CANBERRA, October 26, 1949.

[Received October 27—7:25 a. m.]

229. Evatt issued public statement last night concerning request People's Republic China for recognition. Said arrangements been made that any action taken will be concerted by Australia with UK and US, referred Secretary Acheson's three points, control of area, international obligations and support majority people. Definite and convincing answers required before question recognition can be resolved. "We certainly wish maintain friendly relations with people of China but in absence firm and specific assurance that territorial integrity neighboring countries, notably Hong Kong, will be respected and that new China will carry out all its international obligations, recognition cannot be granted any more than admission to UN could be granted."

JARMAN

893.01/10-2649

The Ambassador in Canada (Steinhardt) to the Secretary of State

No. 637

OTTAWA, October 26, 1949.

[Received October 31.]

Secretary of State for External Affairs L. Pearson announced in the House of Commons yesterday that Canada will not extend recog-

dition to the Communist Government of China until that government can be shown to be independent of USSR control.

Mr. Pearson stated that two requirements for recognition exist. These are: (1) a government must be independent of external control by another state; (2) a government must exercise effective control over the territory which it claims. Mr. Pearson made it clear that recognition would not necessarily follow even if Communist China met the stated requirements.

Canada, Mr. Pearson added, is keeping in close touch with "like-minded" governments with respect to developments in China. He said: "Very careful consideration is being and will continue to be given to all the implications arising out of the situation there which is so important to the peace of the world."

The question of Canadian recognition of Communist China was heightened when T. C. Davis, Canadian Ambassador to China, stated a short time ago in a press interview in San Francisco that Canada could do business with Communist China. Ambassador Davis is now in Ottawa for consultation. He has been extremely chary of making further public statements along this line and has told inquiring reporters only that China wants to do business with Canada. When asked for comment on his San Francisco statement, Mr. Davis told a *Citizen* reporter: "You people have been asking me the same questions all across the country, and I'm sorry I cannot answer them before reporting to the government."

Mr. Pearson's statement in Parliament has evidently finished discussion for the time being on recognition of China. It seems not improbable, however, that Canada may give further consideration to the question upon learning the results of the Singapore meeting of Commonwealth representatives.

For the Ambassador:
 JULIAN F. HARRINGTON
American Minister

893.01/10-2749 : Telegram

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

CHUNGKING, October 27, 1949—11 a. m.

[Received October 27—3:02 a. m.]

Cantel 1229. Foreign Minister⁵¹ states Bevin had conversation with Chinese Ambassador, London, about October 20, in which Bevin

⁵¹ George K. C. Yeh.

reported to have assured that UK not contemplating full recognition in near future.

Yeh claimed that in this talk Bevin made remark that Britain was only country fighting Communists since it intended hold Hong Kong while "US only made gestures and did nothing" and Chinese Nationalist Forces always retreated without fighting.

Evatt speech of recent date in which stated Australia would follow joint line with US and UK in not recognizing Communists was discussed by Yeh. He thought Evatt might have based remarks on some very recent agreement between US and UK on recognition question but on other hand felt Evatt might "again have been talking through his hat". Yeh said he knew Ambassador Stevenson was urging *de jure* recognition and he felt very keenly the failure of UK to maintain diplomatic relations with Chinese Government (Cantel 1216, October 21⁵²) after having promised at Canton to give British ConGen here concurrent diplomatic status.

STRONG

893.01/10-2749 : Telegram

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

CHUNGKING, October 27, 1949—noon.

[Received October 27—4:46 a. m.]

Cantel 1231. October 26, Foreign Minister Yeh said that in interview about 10 days ago between Nehru and Chinese Ambassador Koo,⁵³ Nehru declared, despite heavy pressure from British, Indian Government would not recognize Chinese Communists for 2 or 3 months at which time Nehru opined Chinese Nationalist regime would be finished. Nehru gave as reason for delay in recognition appreciation Chinese help to India in 1942 and past Kuomintang financial and other support to Congress Party.

STRONG

893.01/10-2749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, October 27, 1949—1 p. m.

[Received October 27—1:21 a. m.]

621. Inspector General, Chinese Maritime Customs L. K. Little just returned from Hong Kong where he conferred with British Am-

⁵² Vol. VIII, "Successive moves of the Embassy office in China in efforts . . .".

⁵³ V. K. Wellington Koo, Chinese Ambassador in the United States.

bassador to China. In reply to direct question by Little re British recognition Chinese Communists, Ambassador stated he saw no reason for delaying recognition but that his Government would take no action until: (1) after conference of area Ministers and Ambassadors at Singapore, and (2) disposition of China's case in UN. By possible maneuvering, the disposition of China's case in UN might be prolonged by US if we desire to postpone British recognition at this time.

Prominent British businessman and close friend of Little's confided to Little that British Ambassador told him he would press for immediate recognition Communist China upon arriving London.

Governor of Hong Kong remarked to Little he did not think recognition imminent.

Sent Department, repeated Hong Kong 59.

MACDONALD

893.01/10-2749 : Telegram

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

PEIPING, October 27, 1949—3 p. m.

[Received October 27—8:31 a. m.]

1836. ReContel 1822, October 25. Chinese student Tsinghua October 21 informed Carpenter⁵⁴ question American recognition new Chinese regime much discussed political science classes. Professors presented united front in stating recognition hoped for but could not alter basic enmity two countries. American recognition would merely constitute effort US Government ameliorate desperate domestic economic situation, not mark friendship or respect toward New China. China must accept recognition for sake concomitant economic and financial benefits only USA presently in position provide. Relative economic strength USA result insignificant American contributions made last war. In no case must Chinese people substitute friendly for opportunistic attitude toward USA.

Chinese students instructed regard all former American friends as spies. Even after recognition, American diplomatic and commercial personnel must be treated as self-confessed spies, American businessmen as informers, local American consuls, American missionaries as hypocritical, violently anti-Communist, exploiters of Chinese people, American students in Chinese universities as agents FBI from which necessary for them obtain clearance before proceeding abroad. In sum, Chinese people must utilize American recognition for own sakes, must not regard it as anything but mere economic palliative on part USA, must continue regard American people as actual enemies.

⁵⁴ Gardner E. Carpenter, Vice Consul at Peiping.

Informant reported students appeared convinced logic, validity above arguments.

Sent Department 1836; Department pass Shanghai 1102.

CLUBB

865.00B/10-2949 : Telegram

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

ROME, October 29, 1949—6 p. m.

[Received 9:16 p. m.]

3460. Information contained Deptel 2617, October 22,⁵⁵ transmitted Director General, Political Affairs, Foreign Office, who states Italian position similar to ours and that US would be consulted by Italy prior to any decision on part of Italian Government re recognition Communist regime.

DUNN

III. REACTIONS TO BRITISH PROPOSAL OF NOVEMBER 1 FAVORING *DE JURE* RECOGNITION OF THE PEIPING REGIME; BRITISH DECISION OF DECEMBER 15 TO ACCORD *DE JURE* RECOGNITION IN JANUARY 1950; OPPOSITION BY THE UNITED STATES TO HASTY RECOGNITION (NOVEMBER-DECEMBER)

893.02/11-149

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 1, 1949.

Participants: Mr. H. A. Graves, Counselor, British Embassy
Mr. Butterworth, Assistant Secretary
Mr. Sprouse, CA

Mr. Graves called by appointment this afternoon and handed Mr. Butterworth the attached secret memorandum, prepared by the British Embassy under date of November 1, 1949,⁵⁶ in which are set forth the views of the British Government with regard to the question of recognition of the Chinese Communist regime.⁵⁷ He explained that

⁵⁵ Not printed; it reported in regard to the Chinese Communist bid for recognition and the Department's position (893.01/10-1949).

⁵⁶ *Infra.*

⁵⁷ The Ambassador in the United Kingdom (Douglas) reported in telegram No. 4353, October 31, 9 p. m. (893.01/10-21[31]49), and in despatch No. 1744, November 1 (893.01/11-149), that the British Foreign Office on the afternoon of October 31 informed the Embassy of the proposal to be made by the British Government for the recognition of the Chinese Communist regime as the Government of China.

the memorandum also set forth the British attitude toward the Chinese case in the United Nations regarding Soviet violations of the Sino-Soviet treaty of 1945.⁵⁸ In reply to a question, Mr. Graves stated that the British Government was instructing its representatives to consult on this question with the French, Dutch, and Belgian Governments and with the governments of the British Commonwealth, as well as with the U.S. Government. (Mr. Graves subsequently telephoned Mr. Sprouse and said that a later telegram from the British Foreign Office indicated that similar instructions had been sent to Rome, Lisbon, Luxembourg, Oslo and Copenhagen.) He explained that the British Government would appreciate receiving an indication of the U.S. Government's views within two weeks. He further stated that the attached memorandum represented the preliminary conclusions of the British Government regarding the question of recognition. With respect to the Chinese case before the United Nations, he explained that the memorandum represented the present thinking of the British Government.

After some general discussion of the memorandum, Mr. Butterworth asked if the absence of reference in the memorandum to the question of obtaining assurances from the Chinese Communist regime, prior to extending recognition, of respect for international obligations indicated that the British Government would not expect to obtain any *quid pro quo*. Mr. Graves replied that it was the British Government's view that the disadvantages of nonrecognition were so great as to outweigh any possible advantages to be obtained from securing Chinese Communist assurance of respect for international obligations. He added that the British Government was under no illusions as to the advantages to be gained from any commitment obtained from the Chinese Communists with respect to international obligations. Mr. Butterworth referred to the conversations between the Secretary, Mr. Bevin⁵⁹ and Mr. Schuman⁶⁰ in September and pointed out that the question of observance by the Chinese Communists of their international obligations in accordance with international comity had been brought up during those conversations and that it was his understanding that this would be considered in connection with the problem of recognition. In reply to a direct question, Mr. Graves admitted that the British Government would expect to obtain Chinese Communist assurances regarding observance of the Kowloon lease agreement prior to extending recognition. He indicated that the question of Hong Kong did not arise since this was British territory ceded by treaty.

⁵⁸ Signed at Moscow, August 14, 1945. For text, see United Nations Treaty series, vol. x, p. 300; for correspondence, see volume I.

⁵⁹ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁶⁰ Robert Schuman, French Minister for Foreign Affairs.

Prefacing his query with the expression that he was going to be very frank, Mr. Butterworth asked if the British had had any preliminary conversations with Chinese Communist authorities either in Hong Kong or in Shanghai through intermediaries such as Mr. John Keswick (head of Jardine-Matheson)⁶¹ which would provide some common ground and make the British approach to the question of recognition seem less of a "bolt out of the blue". Mr. Graves replied that the British Embassy at Washington had no knowledge of any such exploratory discussions but that he himself suspected that such an approach may have been made through Mr. Keswick at Shanghai. He said that he would inquire of the Foreign Office in this regard.

Mr. Butterworth referred to the indication given by the Secretary to Mr. Bevin in September of the probable attitude of the countries in southeast Asia toward early recognition of the Chinese Communist regime and added that he assumed that the British representatives in their forthcoming conference at Singapore would look into this question and take into consideration the attitudes of the countries in southeast Asia, which, according to American reports, would not favor early recognition. Mr. Graves said that he felt certain that this question would be considered at Singapore by the British representatives and said that he would endeavor to obtain information in this regard for transmission to Mr. Butterworth.

Mr. Graves stated in conclusion that the British Government expected to receive the replies of the other governments being approached without any difficulty within the next two weeks and repeated the previously expressed hope that the Department of State would give him an indication of the U.S. Government's attitude within two weeks. Mr. Butterworth replied that the Department would give full consideration to the matter and that it was hoped a reply would be forthcoming as requested by the British.

893.01/11-149

*The British Embassy to the Department of State*⁶²

1237/34/49

MEMORANDUM

His Majesty's Government in the United Kingdom, having considered the question of the recognition of the Chinese communist

⁶¹ Jardine, Matheson & Co., British shipping firm in China.

⁶² Handed by the Counselor of the British Embassy (Graves) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth) on November 1 and by the Secretary of State to President Truman on November 7.

regime, desire to consult with the Government of the United States and other governments including those of the British Commonwealth, on the basis of the general appraisal of the situation and conclusions set forth in the present memorandum. His Majesty's Government will make no decision on recognition until replies have been made and until a report has been received from Singapore, where the forthcoming conference of United Kingdom representatives will consider the implications of recognition as they affect United Kingdom interests in the Far East.

2. It is recalled that the Chinese Nationalist Government was our former ally in the war and has been a useful friend in the United Nations. Today it is unfortunately no longer representative of anything but its ruling clique, whilst its control over the remaining metropolitan territories is tenuous. The Nationalist forces in China have shown no disposition to give battle and there is no doubt that the will to resist has largely disappeared. In the United Nations Organisation the continued recognition of the Nationalist Government offers the advantage of a vote which in the past has usually been cast in our favour, whereas a communist vote is likely to be cast against us. But this is hardly an advantage which can be maintained indefinitely.

3. The communist government of the People's Republic of China is the only alternative to the Nationalist Government and the communists are now the rulers of most of China (Mr. Bevin is advised that they control at present seventy per cent of the total area of the country and seventy-five per cent of the total population of China). Moreover the fall of Canton has brought them to the frontier of Hongkong. It would be a mistake to disregard the fact that they are, on their own statements, orthodox Marxist-Leninists who openly declare their strong partiality for the Soviet Union and its methods. How long they will last, how "orthodox" their methods will be, and how strong their leadership will prove is yet to be seen.

4. The Soviet Union and the satellite states have already recognised the communist government, and a considerable number of Russian technicians have already arrived in North China. It may be expected that the Soviet Union will take full advantage of the fact that they are first in the field and that, in the absence of any representation from the West, they will seek to influence the Chinese communist government in the direction of making matters difficult for other powers. If there is a considerable influx of Russians, it is not impossible that frictions may develop with the Chinese, but we cannot expect to take advantage of such a development if we have no relations with the communist government. The communists have a need to trade with the West but, with the lapse of time, if such trade does not

develop they may come to the conclusion that they can tighten their belts and do without Western economic assistance, in which view they will be encouraged by the Soviet Union.

5. The United Kingdom has also to consider its own trading interests in China, which are considerable and of long standing. His Majesty's Government have advocated a policy of keeping a foot in the door, and if this policy is to bear fruit it can only be as a result of recognition of the Chinese communist government. On political and practical grounds His Majesty's Government are therefore in favour of *de jure* recognition.

6. Mr. Bevin is advised that recognition of the communist government as the *de jure* government of China in present conditions cannot be held to be contrary to the principles and practice of international law, having regard to the proportion of Chinese territory controlled by the communist government and the firmness of its control there on the one hand and, on the other, to the small proportion of Chinese territory held by the Nationalists and the tenuous nature of Nationalist control, where it exists. It can be asserted that the resistance of the Nationalist Government in China is now ostensibly hopeless and its control over any portion of Chinese territory on the mainland hardly more than nominal, and in these circumstances Mr. Bevin is advised that *de jure* recognition of the communist government is legally justifiable.

7. The above represents His Majesty's Government's political and legal appreciation of the position and their conclusion is that recognition should be accorded. A detailed examination has yet to be made of the precise implications for the United Kingdom of *de jure* recognition and these are being studied. The implications for the United Kingdom's extensive Far Eastern interests will be examined by a conference of His Majesty's representatives in the Far East which is being held from the 2nd to the 4th November. Other governments will no doubt be studying the implications for their own interests. It is Mr. Bevin's hope that the action eventually taken by governments will be concerted as far as possible, although it is accepted that every government has, in the final analysis, the right to take such action as it considers appropriate.

8. His Majesty's Government in the United Kingdom have also been considering what their attitude should be when the Chinese Nationalist complaint against the Soviet Union comes up for debate in the political committee of the United Nations Assembly. They are unable to see that the Nationalist complaint will, at this late date, serve any useful purpose in upholding the authority of the Nationalist Government in China, which has already been described as tenuous. It is

by no means clear that a successful case can be established against the Soviet Union or that, if it is established, any desirable result will ensue. The Soviet Union for its part can be relied upon to make a violent attack upon the position of the Nationalist Government and is likely to make use of those portions of the United States White Paper on China⁶³ which are the most damaging to Chiang Kai-Shek⁶⁴ and the Nationalist Government. Since, in the opinion of His Majesty's Government, the present state of affairs in China is due to the corruption and maladministration of the National Government and that any breach of the Sino-Soviet Treaty of 1945 had in fact little bearing upon the present situation, any support of the Nationalist Government in the forthcoming debate would not, it is considered, be justified. Nor, if ultimate recognition of the Chinese communist government is contemplated, does there appear to be any purpose in criticising the Chinese communists in advance of such recognition. In these circumstances, His Majesty's Government in the United Kingdom are disposed to instruct their representatives in the United Nations Assembly to take no part in the debate and to abstain from voting if a vote should take place.

9. It would be of considerable convenience to Mr. Bevin if Mr. Acheson could favour him with the Department of State's observations within the next two weeks in order that His Majesty's Government may review the problem in the light of those views and the opinions expressed at the Singapore Conference.

WASHINGTON, 1 November 1949.

893.01/11-249

Memorandum by Mr. Gerald Stryker of the Office of Chinese Affairs

[WASHINGTON,] November 2, 1949.

Subject: Attitudes Toward Recognition of the Chinese Communist Regime

A. Attitudes of friendly interested governments.

In general almost all governments friendly to the U.S. and concerned with developments in China continue to support, in theory at least, the position consistently advanced by the U.S. since May of this year that (a) hasty recognition would be unwise, and (b) con-

⁶³ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949); for correspondence regarding the publication of the White Paper, see pp. 1365 ff.

⁶⁴ President of China until his retirement on January 21, 1949, in favor of Vice President Li Tsung-jen; leader of the Kuomintang (Nationalist Party).

sultation between friendly interested governments prior to taking any action respecting recognition is desirable.

Certain governments, however, have replied to the Chinese Communist bid for recognition in a way and in terms which might be interpreted as something of a departure from the agreed policy of holding prior consultation and making no haste. Thus, the UK (whose most recent declaration on recognition policy is treated below), the Netherlands, India, and Canada have stated to the Chinese Communist regime orally or in writing that the question of recognition is under consideration and that in the meantime it is to be hoped that consular officials of the concerned governments will be allowed to perform normal functions of mutual advantage.

No government has stated categorically that it will not recognize the Chinese Communist regime. On the contrary, the general attitude is that all friendly interested states will eventually recognize the regime, but that the granting of recognition will be dependent on certain factors such as protection of trade interests, protection of the borders of neighboring states, the regime's willingness to accept its international obligations, or questions connected with the vague term "timing."

Conditions for recognition have been stated publicly only by Australia, and these conditions are the most stringent yet set by any government. The Australian Minister for External Affairs⁶⁵ in a remarkable statement on October 25⁶⁶ announced that the question of recognition cannot be solved until "definite and convincing" assurances are given that "(1) the government which was set up on 1st October is in fact in control of the area it claims; (2) it is in fact prepared to and capable of carrying out its international obligations; and (3) it is a government supported by the free will of the majority of the people it rules." (Mr. Evatt, incidentally, attributed the enumeration of these conditions to Secretary Acheson, a gross inaccuracy as far as the third condition is concerned.) Mr. Evatt noted furthermore that the UK, the US and Australia "are in complete accord in their attitude toward the new government" and concluded that "in the absence . . .⁶⁷ of firm and specific assurances that the territorial integrity of neighboring countries, notably Hong Kong, will be respected and that the new China will carry out all its international obligations, recognition cannot be granted any more than admission to the United Nations would be granted."

⁶⁵ Herbert V. Evatt.

⁶⁶ See telegram No. 229, October 26, from the Ambassador in Australia, p. 145.

⁶⁷ Omission indicated in the source text.

"On political and practical grounds, His Majesty's Government are . . .^{67a} in favor of *de jure* recognition." So states a note delivered on November 1 by the British Embassy in Washington. The note makes it clear that this declaration is based on the belief that (a) the National Government's position is "ostensibly hopeless", (b) the UK and other western powers will be in danger of forfeiting important advantages to the USSR and its satellites in terms of both economic interest and political influence if recognition is long delayed, (c) *de jure* recognition is legally justified in view of the Chinese Communists' firm control over most of China, and (d) the UK can hope to protect its own sizeable and long-standing trading interests in China only if recognition is granted. The British communication makes no mention of any conditions for recognition; it is apparently the British view that *de jure* recognition should be extended, when the time comes, with no strings attached. The note states that a decision regarding recognition will not be made until replies are received (Secretary Acheson is requested to reply within two weeks) and until a report is forthcoming from the Singapore conference (November 2-4). At the same time the UK wants it understood that, while concerted action is desirable, "it is accepted that every government has, in the final analysis, the right to take such action as it considers appropriate."⁶⁸

B. *Attitudes of Participants in Round Table Discussion of October 6, 7, and 8.*

The question of recognition was discussed at some length during the conference on US problems in the Far East sponsored by the Department's Office of Public Affairs on October 6-8. The 25 participants in this conference represented various segments of the US public and all were qualified to a greater or lesser degree as experts in the Far Eastern field.

With the exception of Mr. Stassen,⁶⁹ who categorically opposed recognition on the grounds described below, and of an Oregon banker who counselled a policy of "watch and wait" because of his concern over explosive reactions from the US public and the Congress, every one of the participants who expressed his views on the subject favored US recognition of the Chinese Communist regime. The supporters

^{67a} Omission indicated in the source text.

⁶⁸ Foregoing part "A" of this memorandum was set up separately as CFE D-2/1 for use of the Secretary of State in the forthcoming meeting in Paris of the Council of Foreign Ministers; see memorandum CFE D-2, November 5, p. 168.

⁶⁹ Harold E. Stassen, former Governor of Minnesota, President of the University of Pennsylvania.

included eleven intellectuals and educators, four businessmen, and one (the only) missionary representative. The desirability of recognizing the Chinese Communist regime was so much taken for granted during the discussion that little mention was made of the positive reasons for recognition. Discussion centered, rather, on when and under what conditions recognition should be granted. Be that as it may, the following points were advanced in support of recognition:

(1) Nothing is to be lost by recognition, nothing to be gained by non-recognition.

(2) Non-recognition would hamper trade or make trade impossible.

(3) Chinese public opinion will be more favorable to the US if the US recognizes.

(4) Recognition might make possible reestablishment of the traditional US policy of the "open door."

(5) Only by recognition can relations with the Chinese be "normalized."

Some of the supporters favored immediate recognition, but most of them believed that recognition should be granted at a certain time and under certain conditions. Observations made along these lines included the following points:

(1) Recognition should be granted if and when

(a) the National Government loses control completely and the Communists establish effective "machinery of state."

(b) the Chinese Communists demonstrate their willingness to accept international obligations and to treat decently nationals of other states in territories under their control.

(2) Recognition should be used as a bargaining agent in attempts to secure certain conditions vital to the US.

(3) Recognition should be granted neither too early, in which case the US would appear to be engaging in a panicky retreat in all of Asia, nor too late, in which case the US would appear to be forced into temporizing with a situation beyond its ability to handle.

(4) The US should begin immediately to disentangle itself from the National Government. Specifically ECA⁷⁰ aid should be ended forthwith and the US should keep itself clear of the Chinese case before the UN. (One or two of the participants even favored positive action by the US to end the "port closure").

(5) US public opinion should not be an impediment to recognition; public opinion can be either ignored or educated to a new view of the China scene. That education has already begun with the publication of the White Paper.

(6) There is no reason for holding up recognition on account of the prospective Japanese peace treaty.

⁷⁰ Economic Cooperation Administration.

Mr. Stassen's opposition to recognition was based on the following considerations:

(1) Recognition would hasten the victory of the Communists in China and hasten the complete liquidation of the National Government.

(2) Recognition would mean repudiation of one of the US's greatest wartime allies.

(3) Recognition would force out of the UN the representatives of a government which still has effective jurisdiction over one-third of the area of China and one-third of its people.

(4) Recognition of the Chinese Communist regime would mean abandonment of a Government which has provided a greater measure of democracy and individual freedom than has any Communist government.

(5) Recognition would put the US in the position of being unable at some later date to support effective anti-Communist elements in China.

(6) If it is the desire of the US to encourage Titoism⁷¹ in Communist China, generosity is not the means to attain that end, as shown by US experience in Yugoslavia.

Mr. Stassen concluded his statement on recognition by observing that recognition and assistance would be appropriate when indications appeared that the Chinese Communists were moving away from Moscow and in the direction of granting individual freedom to the people under their control. He also stated emphatically that the US should have a new program of economic aid to Asia in operation before recognition is accorded to the Chinese Communist regime.

C. Statements by Far Eastern Specialists

Roughly two-thirds of the thirty Far Eastern specialists who were invited by Ambassador Jessup⁷² in letters of August 18 to submit comments and recommendations on US policy in the Far East discussed the question of recognition of the Chinese Communist regime. About half of this number favored recognition, while the other half were opposed.

Those who favored recognition believed that the fact that the Communists have effective control over China calls for prompt US recognition. This group was also concerned with the problem of maintaining the maximum amount of American connections in China in order to minimize Communist control and to help bring about its eventual decline. Some of the supporters of recognition felt that the US should make it clear that any delay in recognition would be caused

⁷¹ Marshal Josip Broz Tito, head of the Yugoslav Communist Party and State, broke with Moscow, June 1948.

⁷² Ambassador at Large Philip C. Jessup.

by Communist unwillingness to maintain relations and to assume the usual international obligations.

Only a small number of those who specifically opposed recognition now, looked forward to recognition in the foreseeable future. This group held generally to the line that the US should adopt a "wait and see" policy and that a "delayed decision" would be most advisable.

D. *US press opinion*

The US press during the past month and a half has devoted considerable attention to the question of US recognition of the Chinese Communist regime. Editorial policies range from an outright call for immediate recognition to a downright condemnation of recognition at any time, with a good many papers having discussed the question without arriving at any conclusion. A majority opinion on the subject cannot be stated to exist as yet.

Papers which support recognition now or at some indefinite time in the future make the following points:

(1) Recognition would mean only cognizance of what is already an accomplished fact.

(2) Recognition would allow the US to maintain contact with the Chinese; the US must keep offices in China as listening posts.

(3) Withholding recognition is a weapon of limited usefulness.

(4) Recognition does not imply moral approval of a regime.

(5) The US can hope to influence the Communist regime along democratic lines and keep Russian influence at a minimum only through recognition.

(6) Failure to recognize will drive China further into the arms of the USSR.

Newspapers which support recognition generally feel that recognition should be contingent upon

(1) Chinese Communist control over the mass of the people.

(2) Chinese Communist assumption of international obligations.

(3) Chinese Communist agreement to behave and to treat US officials and nationals decently.

Those newspapers which oppose recognition take the following stand:

(1) Recognition would entail moral and material aid and support to the Chinese Communists.

(2) Recognition of the Chinese Communists, while at the same time carrying on a cold war with the USSR and its satellites in Eastern Europe, would make for inconsistency in US foreign policy.

(3) Recognition would give China's seat in the UN to the Chinese Communists.

(4) The US should not recognize the Chinese Communists but rather support the National Government.

Editorial discussions of the question of recognition have contained these additional observations:

(1) Whether the Chinese Communist regime is recognized or not, it will not be easy to do business with the Communists.

(2) It is to be hoped that the US and other Western Powers will take concerted action regarding recognition, but it is generally believed that the UK will lead the way in recognizing, thereby causing a split in US-UK policy.

890.00/11-1749

Memorandum by Mr. Charlton Ogburn, Jr., of the Bureau of Far Eastern Affairs

[WASHINGTON, November 2, 1949.]

DECISIONS REACHED BY CONSENSUS AT THE MEETINGS WITH THE SECRETARY AND THE CONSULTANTS ON THE FAR EAST ⁷³

[Here follows summary of decisions in regard to the area from Japan to Pakistan as a whole, followed by summary of decisions in regard to individual countries in the area, Japan, Ryukyu Islands, and Korea.]

D. China

1. The further extension of military aid, overt or covert, by the United States to the Chinese Nationalist Government or to Chinese Nationalist armies would be futile and should be ruled out as likely to recoil to our disadvantage.

2. With regard to providing any anti-Communist elements in China with any kind of assistance, the burden of showing that such assistance would be effective in the specific case must lie with the proponents of such a program of aid.

3. With regard to Communist China, we anticipate the possibility that great strains will develop between Peiping and Moscow. These

⁷³ The Secretary of State presided over two meetings with Officers of the Department and the Consultants on the Far East. On October 26, from 2:30 to 5 p. m., the following were present: The Secretary, the Under Secretary (Webb), the Deputy Under Secretary (Rusk), the Counselor (Kennan), the Assistant Secretary for Far Eastern Affairs (Butterworth), the Assistant Secretary for Near Eastern and African Affairs (McGee), Ambassador Stuart, Ambassador Jessup, Consultants Robert B. Fosdick and Everett Case, and Walter Wilds, Charles W. Yost, Raymond A. Hare, John M. Allison, Philip D. Sprouse, John Davies, Jr., Kenneth C. Krentz, Dallas W. Dort, and Charlton Ogburn, Jr. On October 27, from 4 to 5:15 p. m., the following were present: The Secretary, Mr. Rusk, Mr. Butterworth, Ambassador Stuart, Ambassador Jessup, Consultants Fosdick and Case, and Messrs. Wilds, Yost, Hare, Allison, Sprouse, Davies, Lampton Berry, Krentz, Dort, Elbert G. Mathews, James L. O'Sullivan, and Ogburn.

strains would not only work to our advantage but would contribute to the desired end of permitting China to develop its own life independently rather than as a Russian satellite. However, rather than go out of our way to create difficulties for the Chinese Communist regime, which might drive it the more firmly into the arms of the Kremlin while failing to shorten its life, we should recognize that the ingredients of the situation in China are such as to make the task of any Chinese Government exceedingly difficult and should allow these ingredients full opportunity to operate.

4. In pursuit of our aim of encouraging Chinese Communist deviation from the Moscow line, we should keep before the Chinese people the fact of our interest in their independence and welfare, and to this end should utilize the full potentialities of an expanded information program, relying upon written materials in addition to the Voice of the USA, which is of limited effectiveness.

5. At the present time, we should not consider US Government financial assistance to Chinese Communist projects of an economic-developmental nature and should discourage the enlistment of private American capital in such projects. Communist China should not be made eligible for Point IV benefits. However, we should permit American business firms already in China to continue their operations and should favor the continued functioning of American philanthropical and educational missions in China in order to maintain our contacts with the Chinese people.

6. We should acquiesce in trade with China of an innocent character while permitting no strategic items to reach Communist China and making no loans to encourage trade with China.

7. US recognition of the Chinese Communists is not to be regarded as a major instrument for showing our interest in the Chinese people or for winning concessions from the Communist regime. Our attitude on this question should not be an eager one, but should be realistic.

8. We should not seek to detach Formosa from the Communist-controlled mainland either by the application of force or by seeking jurisdiction over the island through a trusteeship arrangement on behalf of Formosan self-government, since such actions on our part would outrage all Chinese elements and as a resort to naked expediency would destroy our standing with the smaller countries of the world. However, should another nation bring the conflict involving Formosa before the United Nations as a threat to the peace, we might join with other members in supporting a cease-fire resolution and the application of the principle of self-determination.

[Here follows summary of decisions with regard to other countries in the area, the Philippines, Indochina, Thailand, British Malaya, Indonesia, Burma, India, and Pakistan.]

893.01/11-249 : Telegram

The Secretary of State to the Second Secretary of Embassy in China (Bacon), at Nanking

WASHINGTON, November 2, 1949—7 p. m.

1204. Shanghai states Bishop Walsh ⁷⁴ informed by Papal Nuncio Riberi he favors immed recognition Commie regime by Vatican as only hope for maintenance of church in China. As Emb officers now in Dept were given opposite impression by Riberi, you are requested to ascertain his present attitude re recognition through informal conversations without giving any indication you are under instrs from your Govt. Report results to Dept.

ACHESON

893.01/11-349 : Telegram

The Ambassador in Burma (Huddle) to the Secretary of State

RANGOON, November 3, 1949—noon.

[Received November 3—7:51 a. m.]

484. Panikkar, Indian Ambassador to China, returned through Rangoon recently, worried by growing might of Red China and its threat to Asia, especially Indian Government and institutions, inclined to recommend early recognition by India. Burma Ambassador Myint Thein, also back from Nanking, is much impressed by Mao Tse-tung ⁷⁵ government's progress, considers it aggressive and expansionist in sense that its ambitions may take it beyond Chinese borders, fears for safety of Burma, remarking that China traditionally has never considered Burma an independent political entity.

HUDDLE

⁷⁴The Most Reverend James E. Walsh, American Roman Catholic missionary in China (Maryknoll Fathers).

⁷⁵"Chairman of the Central People's Government of the People's Republic of China"; Chairman of the Central Committee of the Chinese Communist Party.

893.01/11-349

*Memorandum of Conversation, by the Assistant Secretary of State
for European Affairs (Perkins)*

[WASHINGTON,] November 3, 1949.

Participants: Mr. Perkins, Assistant Secretary for European Affairs
Sr. Luciulli, Counselor, Italian Embassy
Mr. Unger, WE ⁷⁶

Mr. Luciulli said that the Italian Government has just received from the British Government a note to the effect that the British intend to give formal recognition to the Chinese Communist Government but, before taking final action, they wish to solicit the views of the North Atlantic Pact countries. Luciulli said that Italy's interests in this matter are primarily of a general nature, aside from certain commercial considerations, and relate more to Italy's relations with the other Western countries than any direct political interest in the Chinese situation itself. For this reason he was raising this question first with me to solicit my views, on instructions from his Government, although he would like subsequently to talk to some of the Far Eastern officers in the State Department. Luciulli added that the Italian Government felt that concerted action among the Pact countries was probably desirable on important issues of this nature. I replied that I was not intimately acquainted with our Chinese policy and our immediate plans in this respect but that my personal view was that the British action was somewhat hasty. I recognized, however, that sooner or later we would probably have to recognize the fact that the Communist Government was in control of China and presumably to accord it recognition. I said that the French seemed to agree with us on the advisability of a more gradual policy. Luciulli said he assumed from this that we favored reaching final recognition through a series of gradual steps, rather than final action now.

Luciulli then pointed out that Italy had a direct interest in recognition as it may relate to the possibility of Italy's securing membership in the UN. He explained that, if recognition takes place, at some point the permanent members of the Security Council, including the USSR, would undoubtedly have to take up the question of the replacement of the present Nationalist Government representative by a representative of the Communist Government and at this time the

⁷⁶ Leonard Unger, of the Office of Western European Affairs.

question of Italian membership in the UN might usefully be raised. Presumably Luciulli was proposing that Soviet agreement to Italian admission to the UN might be demanded in return for our accepting Communist instead of Nationalist representation for China. I acknowledged this suggestion but gave my opinion that it was unlikely that additional countries would be admitted to the UN until it is agreed that all those which have been proposed for membership are taken in at once.

GEORGE W. PERKINS

893.01/11-449 : Telegram

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

PARIS, November 4, 1949—4 p. m.

[Received November 4—1:41 p. m.]

4598. Baeyens⁷⁷ informs us meeting held November 1 interested division chiefs, Foreign Office and in Overseas France, Pignon,⁷⁸ Meyrier (French Ambassador to Nanking) to discuss British memo regarding recognition Chinese Government (Depintel November 2, 1 a. m.⁷⁹ received Paris November 4, 6 a. m.).

Baeyens stated while meeting accepted inevitability of recognizing Communist Government, favored postponement as long as possible, amongst other major reasons because of effect recognition on Indochina situation. French believe if British recognize now, Belgium, Holland, India and Pakistan (but not necessarily Australia and New Zealand) will probably follow suit immediately, "leaving rest of us out on limb if we persist delaying". In belief US thinking on undesirability early recognition similar to French, and in view greater possibilities US influencing UK, meeting recommended Foreign Office request Department take parallel action French in endeavoring "to slow down British".

Said minutes meeting in hands interested Ministries since yesterday but no decision on recommendation had as yet been made.

Sent Department 4598, repeated London 792.

BRUCE

⁷⁷ Jacques Baeyens, Head of the Asia-Oceania Section of the French Foreign Office.

⁷⁸ Leon M. Pignon, French High Commissioner in Indochina.

⁷⁹ Not printed.

893.01/11-449

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 4, 1949.

Mr. Daridan⁸⁰ called this afternoon and during the course of his conversation informed me that the French Embassy had this morning received a telegram from the Foreign Office giving the gist of a note from the British Embassy in Paris regarding the British views on the question of recognition of the Chinese Communist regime. (This note is identical with that presented by the British Embassy to the Department on November 1.) Mr. Daridan said that the Foreign Office would appreciate our cooperation in endeavoring to obtain a delay on the part of the British with regard to possible recognition of the Chinese Communist regime. He concluded that this was the only comment the Foreign Office had made regarding the British note.

893.01/11-449 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 4, 1949—5 p. m.

[Received 8:21 p. m.]

1366. Sardar Patel, Home Minister and Deputy Prime Minister, telephoned me this morning and asked me to lunch with him today. At lunch were present only Patel, his private secretary, his daughter and myself. While Patel has aged in past few months, he was alert and expressed himself in his usual blunt and concise fashion.

He said he wished to discuss problem of India's recognition of Communist Government in China which must inevitably come up soon. Following is summary our conversation:

Foreign affairs were usually left to Nehru,⁸¹ but in matter of such importance as recognition Communist Government [of] China, Patel felt that he must participate. I remarked that recognition of Communist Government China by India raised internal as well as external problems, with which Patel agreed. He expressed great concern over

⁸⁰ Jean Daridan, Counselor of the French Embassy.

⁸¹ Indian Prime Minister.

state of affairs in Burma and said that Communist Government in China, with Burma collapsing, presented grave problem to India. He also expressed concern over situation Tibet, but did not elaborate. I remarked that while the position of Great Britain, the US, and India varied insofar as their interests might be affected by the recognition or nonrecognition of China, certain basic factors were common to all countries and then stressed points outlined Deptel 693, October 7. I particularly emphasized that there was no need for haste in recognizing Communist China Government and that any power which counted on obtaining genuine good will or friendship by prompt recognition would be disappointed as Communist regimes did not operate in that fashion. Patel agreed with my views.

His secretary said that Chinese colony in Calcutta had always been a problem and that it would serve as convenient link with Communist China for activities in India. Overt acts by China not feared, but Patel admitted that police left Chinese to themselves in Calcutta's Chinatown and interfered only when absolutely necessary. Chinese in other parts India no problem.

Patel remarked his attitude towards Communism was well-known both at home and abroad. Recent Russian attacks on Prime Minister have been due to Russian idea that he is veering to the right. Patel took this opportunity to say that there was [*were*] no differences between Prime Minister and himself and that it was his job to keep order in the country.

Concluding conversation, Patel said he felt there was no need for hurry in recognizing Communist Government China and asked me to keep in touch with him re problem recognition. Other than that, he made no commitments re Indian policy, but I am sure he will weigh very carefully effect recognition would have on Communist problem in India and on question Indo-Burmese relations. Patel can be powerful factor in opposing the faction which desires prompt recognition China and, in my comments, I therefore emphasized internal aspects of problem as they might affect India, should it recognize Communist regime China.

In view extreme sensitivity Nehru and Minister External Affairs re discussion foreign affairs by other members government, fact that

Patel had this talk with me should not be revealed to British or French.

Sent Department 1366; pouched Calcutta.

Department pass London, Paris from Delhi.

DONOVAN

893.01/11-449: Telegram

The Chargé in the Philippines (Hester) to the Secretary of State

MANILA, November 4, 1949—7 p. m.

[Received November 4—5:44 a. m.]

2538. *Manila Times* October 30 and *Evening News* November 1 carried stories to effect President Quirino October 29 revealed Chinese Government had requested Philippine Government permit entry Chinese refugees and that persons seeking haven would include ranking officials and financiers. Under Secretary Neri,⁸² November 4, informed Embassy officer this report incorrect and result of misunderstanding of remarks made by President Quirino in October 26 speech before Cebu Chinese Chamber Commerce (Embtel 2436, October 20⁸³). Neri added Philippine Government had received informal request permit entry some Chinese financiers who desired survey local investment possibilities but that consideration their request had been shelved.

Passing from discussion question possible admission Chinese refugees to that of recognition Chinese Communist regime, Neri reaffirmed that Philippine Government stands by policy common-front. Indeed, he said, Philippines may well decide on policy non-recognition. Incidentally, Embassy believes Papal Delegate Egidio Vagnozi is exerting his influence here against recognition; in conversation with Ambassador November 2, he voiced opinion effects present [*presence?*] Chinese Commie Embassy could be absorbed without undue danger in Washington or London but that its influence would be dangerous in country like Philippines which contains substantial Chinese population. He added he accordingly felt it important Philippines should not recognize Chinese Communist regime.

HESTER

⁸² Felino Neri, Philippine Under Secretary for Foreign Affairs.

⁸³ Not printed.

893.01/11-549

*Memorandum by Mr. Troy L. Perkins, of the Office of Chinese Affairs*⁸⁴

[CFE D-2]

[WASHINGTON, November 5, 1949.]

RECOGNITION OF THE CHINESE COMMUNIST REGIME

Problem:

The position which we should take during the forthcoming discussions with the British and French Foreign Ministers with respect to the question of possible recognition of a Chinese Communist regime.

Discussion:

1. The present position of leading governments toward recognition and their reaction to the Chou En-lai letter of October 1, inviting recognition, are summarized in Supplement A (CFE D-2/1).⁸⁵

2. Recognition should not be extended before the Communist regime has concretely indicated that it is prepared to respect at least the minimum standards of international conduct and to assume the responsibilities of a government in the treatment of foreign nationals and their interests. The foregoing embodies the meagerest minimum and does not involve the usual and desirable assumption by a new regime of existing treaty obligations of the state nor does it even assume the negotiation of a new agreement, similar to the US-USSR 1933 Litvinov Agreement.⁸⁶ We await the observance in practice of the elementary concepts of international conduct or even (as in the Mukden case⁸⁷) of simple humanitarian treatment of foreign nationals.

Chinese Communist leaders have publicly announced their intention to abrogate or not to recognize a number of the international obligations contracted by the present Chinese Government including,

⁸⁴ A covering document by Bradley Patterson, of the Executive Secretariat, stated that this memorandum was drafted for guidance "on the position the U. S. should take during the forthcoming conversations with the British and French Ministers concerning possible recognition of a Chinese Communist regime. This paper has been approved by Mr. Butterworth and has been informally discussed with the Secretary."

⁸⁵ Not printed; but see part "A" of memorandum by Gerald Stryker, November 2, p. 154, which was adopted in its entirety to be "Supplement A (CFE D-2/1)", with the insertion of the following as the fifth paragraph:

"Among the Southeast Asian countries other than India, Thailand's Premier Phibun has stated publicly that recognition of the Chinese Communist regime will be dependent upon proof that the regime represents and is supported by a majority of the people and its acceptance by the UN. The Burmese have indicated a strong desire to engage in consultation on the question of recognition, but no definitive statement as to that country's intentions has yet been made. The Philippines apparently will follow the U.S. lead on recognition."

⁸⁶ *Foreign Relations*, 1933, vol. II, pp. 805-814.

⁸⁷ See vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

specifically, most of the recent treaties and agreements between the U.S. and China. (There is attached a list of the major treaties and agreements in force between the United States and China—Supplement B—CFE D-2/2).

It is suggested that you take up with Mr. Bevin the question of the British attitude toward Communist disregard of the obligations undertaken by China in the General Agreement on Tariffs and Trade.⁸⁸ We have under consideration the suspension in so far as they apply to imports from China, of the benefits of tariff concessions made by the U.S. in that Agreement. Such suspension would require, for one thing, consultation with other contracting parties and we may find it exceedingly difficult to take the necessary action effectively or at all if the British and a number of the other contracting parties should have, in the meanwhile, recognized the Communists without clarifying their position with respect to the General Agreement.

3. Recognition of the Communist regime by leading democratic powers during the present session of the General Assembly would be unfortunate in its effect upon consideration of substantive problems of this session since, unless there were reasonably unanimous consent among them to the seating of a Chinese Communist delegation, such recognition would probably interject a procedural problem and might well invite a rancorous debate.

4. Hasty recognition by any of the leading democratic Western Powers would have immediate and far-reaching repercussions in southeast Asia because of the indication of a break in the democratic ranks and the aid and comfort given to local Communist movements. We believe that consideration should be given to the attitudes of the countries in southeast Asia which, according to American reports, do not favor early recognition. The reaction in the independent countries, such as Siam, Burma, the Philippines and the new Indonesian Republic would be most important. You may wish, in discussion with Mr. Schuman, to allude to the position which the Indochinese Government and Bao Dai⁸⁹ might find themselves in if there were French recognition of a neighboring regime without any assurances of its future attitudes and actions toward Indochina.

A complicating factor for the French would be the gathering of Pai Chung-hsi's⁹⁰ retreating armies along the Indochina border, since

⁸⁸ Signed at Geneva, October 30, 1947; for text, see Department of State, Treaties and Other International Acts Series No. 1700, or 61 Stat. (pts. 5-6).

⁸⁹ Chief of State of Vietnam.

⁹⁰ Director of Military and Political Affairs for Central China under Acting President Li Tsung-jen.

the French would likely be unable to cope with any large-scale incursions of Pai's forces.

It would also be well for the Secretary to keep in mind the attitude of the British with respect to Hong Kong. If the British should, because of pressure from the US, withhold recognition of the Chinese Communists for a considerable period, it is possible that complications over Hong Kong would arise which might lead to a Chinese Communist attack on the Colony. In this connection, it should be noted that the Joint Chiefs of Staff have given their opinion that the British military position in Hong Kong would, under such circumstances, be untenable and have recommended to the President that "the United States will not provide military support to the British for the defense of Hong Kong in the event of a Communist military attack". The defeat of the British in Hong Kong by the Chinese Communists would, of course, constitute a serious loss in prestige of the democratic Western powers in the Far East.

5. It is our belief that recognition by the U.S. of a Communist regime while the Mukden case is outstanding would be a tactical impossibility. In fact, this case raises the question, as a gauge of their future performance, of the independence of action of the Chinese Communist leaders, most particularly in Manchuria. We consider that the recognition of the Chinese Communist regime by other friendly powers while this flagrant instance of treatment of foreign officials remains unsettled would have the effect of acquiescing in, if not condoning, such practice and could serve as a precedent for the Communists after recognition has been successfully achieved.

6. Finally, it is to be noted that a friendly government which we recognize still has control over considerable areas and population of China and continues to oppose the Communist drive in Asia.

Recommendations:

It is recommended that you endeavor to obtain the agreement of Mr. Bevin and Mr. Schuman to the following:

1. That the friendly Western Powers continue to adhere to the continuation of full prior consultation and, in so far as possible, common action with respect to recognition.
2. That recognition not be extended until at least the conditions generally recognized as a minimum are fulfilled.
3. That no support be given during the present session of the General Assembly to attempts of a Chinese Communist delegation to obtain seating in the Assembly.

[Annex]

Supplement B [CFE/D-2/2:] List of Major Treaties and Agreements in Force Between the United States and China

A. MULTILATERAL

Cairo statement of November, 1943

Charter of the United Nations and Statute of the International Court of Justice, San Francisco, June 26, 1945

(In addition, China is also a party to a number of agreements involving specific UN organizations, such as UNESCO, FAO, IRO, WHO, the International Monetary Fund, the International Bank, ILO, etc.)

General Agreement on Tariffs and Trade (GATT), signed at Geneva, October 30, 1947

Convention on International Civil Aviation, Chicago, December 7, 1944

International Telecommunications Convention, Madrid December 9, 1922 [1932]

International Sanitary Convention for Aerial Navigation, Washington, December 15, 1944

(With protocol of April 23, 1946, prolonging the convention)

Protocol amending the agreements, conventions, and protocols on narcotic drugs, concluded at The Hague on January 23, 1922 [1912], *et seq.*, New York, December 11, 1946

Convention to suppress slave trade, Geneva, September 25, 1926

Agreement for the repression of trade in white women, Paris, May 18, 1904

Convention for promoting safety of life at sea, London, May 31, 1929, with amendments

Universal Postal Convention, Cairo, March [20,] 1934

Convention for the international exchange of official documents, Brussels, March 15, 1886

Convention for the formation of an international union for the publication of customs tariffs, Brussels, July 5, 1890

Arrangement relative to the repression of the circulation of obscene publications, Paris, May 4, 1910

Conventions for the pacific settlement of international disputes and the limitation of the employment of force, The Hague, October 18 1907

Conventions regarding the rules of warfare (The most important of these conventions were those signed at The Hague, October 18, 1907.)

Nine-Power Treaty, February 6, 1922

B. BILATERAL

Treaty . . . Relating to the Relinquishment of Extraterritorial Rights in China and the Regulation of Related Matters, Washington, January 11, 1943

Arbitration Treaty, Washington, June 27, 1930

Air Transport Agreement, Nanking, December 20, 1946

Parcel Post Convention, Peking, May 29, 1916

Agreement relating to the exemption from duty of the effects of diplomatic and consular officers, Washington, September-December, 1930

Agreement Relating to the Presence of United States Armed Forces in China, Nanking, August 29-September 3, 1947

Agreement Relating to Claims Resulting from Activities of US Military Forces in China, effective March 17, 1948

Agreement Relating to the Establishment of the United States Educational Foundation in China (Fulbright agreement), Nanking, November 10, 1947

Agreement relating to financial aid to China (the 500 million dollar credit), Washington, March 21, 1942

Agreements regarding lend-lease

(Most important of these agreements was the Agreement Relating to the Disposition of Lend-Lease Supplies, June 14, 1946, the so-called "pipe-line" agreement.)

Agreement for the sale of certain surplus war property, Shanghai, August 30, 1946

Dollar credit arrangement for the purchase by China of American surplus property abroad (dockyard agreement), Shanghai, May 15, 1946

Agreement . . . Relating to the Transfer of U.S. Naval Vessels and Equipment to the Chinese Government, Nanking, December 8, 1947

Economic aid agreement, Nanking, July 3, 1948

Agreement . . . Providing for Relief Assistance to China, Nanking, October 27, 1947

Agreement . . . Providing for the Establishment of a Joint Commission on Rural Reconstruction in China, Nanking, August 5, 1948

Treaty of Friendship, Navigation, and Commerce, November 30, 1948

893.01/11-549

*Senator H. Alexander Smith*⁹¹ to the Secretary of State

[WASHINGTON,] November 5, 1949.

DEAR DEAN: I had hoped to see you before this to have a chance to talk to you personally about my experience in the Far East. I see by the papers that you are leaving at once for Paris for the conference with the British and French, and therefore there will be no opportunity for me to see you before you go. I realize the pressure you are under and want to send you my very best wishes as you undertake these important deliberations.

There are two matters I wanted particularly to emphasize in my talk with you, and I can state them in this letter, with the hope that I can elaborate my reasons at a later date.

(1) I am strongly of the conviction that we should not recognize the Chinese communist government at this time, and furthermore I hope it will be possible for you with your eloquence and diplomacy to persuade the British not to do so. From conversations with the British authorities in Hong Kong, I was convinced that they were thinking exclusively in terms of (a) defense of Hong Kong, and at any cost retaining it in British possession, and (b) the pressure of their commercial interests in Shanghai and Hong Kong to recognize the Commies, so that traditional British trade can go on as before.

I was also impressed, however, with the statements of the British representatives that they felt whatever stand was taken, should be taken with the United States and not apart from the United States. I feel, therefore, that our strong stand against recognition would have a weighty effect upon the British position. In any event, however, I urge that we do not make the mistake, as I see it, of recognizing the present Chinese communist government. Many things can happen in the next few months.

(2) The second important conviction that came to me from my trip was that under no conditions should we let Formosa fall into the hands of the Chinese communists or under the domination of Russia. This of course presents a very difficult question, and it is problematical whether the Nationalist government could defend Formosa without further aid from us. From the standpoint of our own national security, however, I was convinced from my visit on the ground and getting the feel of our strategical island bases that the occupation of Formosa by hostile forces would definitely threaten our security. I

⁹¹ Of New Jersey, Republican member of the Senate Foreign Relations Committee, who had returned from a personal trip to survey conditions in the Far East.

did not arrive at this conclusion from any strategical knowledge of my own, which I make no claim to, but from the insistence of our military and naval forces wherever I went that this was a very dangerous issue and that we could not afford to pass it up.⁹²

There have been many suggested formulas to handle this delicate matter and I am confident that we can find one on which we can all agree, and which will be in the best interests of the Taiwans themselves. I want to have the opportunity to review these possibilities with you and with our Foreign Relations and Armed Services Committees.

I am sending this line to you at this time because I feel that these matters are urgent and all of us who have responsibility for our foreign policy should be working together and in complete understanding.

With kindest personal regards and best wishes for the success of your trip, I remain

Always cordially yours,

H. ALEXANDER SMITH

893.01/11-649 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, November 6, 1949—noon.

[Received November 6—2:23 a. m.]

2378. Deptel 1204, November 2. Conferred Nuncio November 5 on pretext ascertain Holy See policy re payment house and land taxes. Riberi said had attempted induce religious orders form united front without success; indicated approval Shanghai Jesuit Superiors determination go jail rather than pay. Declared protection mission property and physical safety individual priests must be for Consuls concerned whereas his responsibility primarily survival and welfare in China Catholic Church as such. Had almost succeeded getting Nationalists give legislative sanction to Church as Chinese indigenous religious body and would have to begin again with Communists.

Does not believe recognition would significantly improve temporal relations so long as Communists continue regard religious faith as "mental infirmity". Confirmed my understanding no letter received from Chou En-lai and said with hearty laugh he very glad of that since he could not be called on to reply. Advocated exercise great patience by both Church and US, citing Allied behavior during Berlin blockade as brilliant example resulting frustration Communist tactics. Is convinced domineering Soviets will eventually spoil own welcome

⁹² For correspondence regarding Formosa, see pp. 261 ff.

even in CCP⁹³ and that within few months popular feeling against Soviets and for Western nations will become evident.

Suggested that Ward incident directed by Soviets to create deeper rift between CCP and US and not maneuver to force early recognition. In his opinion, Church troubles various localities caused by attitude local Communist authorities and could not be quickly cured by recognition. Observed with composure that (1) village Communists have just closed Kichow Cathedral (Southeast Hankow), and (2) Nanking police have asked use of local chapel and on being refused said "you will regret". Cited recent case two Peiping priests jailed 5 days for disciplining pupils and said if punishment had been 5 years as rumored would not have minded since such excesses by authorities would serve open eyes of public.

As I left he stopped me and asked with evident anxiety whether I thought British would take independent step and recognize People's Government before other powers ready do so. Said I thought this most unlikely even if sometimes British seemed willing allow impression grow they would do so except for US restraint. Seemed reassured and renewed counsels of "patience and courage".

Believe Riberi still feels no immediate or remote advantage be gained by allowing selves to be stamped into hasty action and thinks profitable course is delay recognition until time when Soviet harness begins to gall CCP authorities as well as Chinese public.

BACON

893.01/11-749 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 7, 1949—10 a. m.

[Received 1:21 p. m.]

1373. UK Deputy High Commission[er] Frank Roberts, who has just returned Singapore Conference, said it was unanimous opinion officials attending conference, even die-hard colonial administrators, that recognition should be accorded Chinese Communists as soon as possible. Roberts said while majority Chinese population Singapore was not pro-Communist they admired and were susceptible to influence from "New China" and representative conference felt that inevitable contacts between Chinese Malaya and Chinese Communists should take place openly where they could be more easily observed rather than through clandestine means as would be case if Chinese Communists not recognized.

⁹³ Chinese Communist Party

According Roberts, conference reached conclusion Indochina was key to whole Southeast Asian situation. If Indochina falls under Communist control, all Southeast Asian countries except Malaya will succumb. Belief is Siam would be first to fall followed by Burma.

Sent Department 1373, Department pass Singapore.

DONOVAN

893.01/11-749 : Telegram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, November 7, 1949—1 p. m.

[Received November 7—11:03 a. m.]

951 Foreign Minister⁹⁴ informs me telegram received from Prince Wan⁹⁵ reporting Dept asked him ascertain view Thailand Govt re recognition Chinese Communist government. Pote said, frankly speaking, Government hoped avoid recognition long as possible. I enquired precisely what he meant by this term. He replied Government hoped delay establishment diplomatic relations until Chinese Communist government seated in UN and implied that early recognition by Britain or other countries would probably not affect Government's present position this matter. He went on to explain establishment diplomatic relations would be grave development for Thailand since it was anticipated Chinese Communist diplomats, consular representatives, would actively endeavor form Chinese minority this country into active pro-Communist unit. Evident from what he said Government rather hopes will be possible avoid exchange diplomatic representatives even in event recognition Chinese Communist govt and that with this in mind formation special Chinese affairs department under Ministry Interior being pushed.

STANTON

893.01/11-749 : Telegram

The Consul General at Singapore (Langdon) to the Secretary of State

SINGAPORE, November 7, 1949—1 p. m.

[Received November 7—3:42 a. m.]

360. Following is account Singapore Conference given me by Dening⁹⁶ impliedly in accordance with Mr. Bevin's undertaking to Secretary full consultation in question recognition Mao government.

⁹⁴ Pote Sarasin.

⁹⁵ Prince Wan Waithayakon, Thai Ambassador in the United States.

⁹⁶ Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs.

Cabinet will make final decision upon receipt reports of UK representatives (see London's 4353, October 23 [31]⁹⁷) and recommendations Singapore Conference. Latter advises soonest *de jure* recognition by year end, if possible, as desirable from viewpoint both SEA⁹⁸ and general positions. Further advises that no formal conditions be attached but that when according recognition UK Government make unilateral declaration. It assumes Chinese Government accepts all international obligations. Observes recognition should not involve weakening but be accompanied by strengthening resistance to spread communism in area. Notes dangers to Malaya of having Communist Consuls and discouraging effects on Bao Dai's regime but offers suggestions to offset them, including joint UK-US declaration with respect Vietnam; similar, that is, regarding attitude in case aggression Hong Kong.

Above constitutes substance of confidential decisions being cabled London; remainder likely reasons for and discussions leading to above.

Full report by pouch follows.

LANGDON

S93.01/11-749 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 7, 1949—2 p. m.

[Received 5:07 p. m.]

1375. Embtel 1366, November 4. Panikkar, Indian Ambassador to China, asked me to lunch with him yesterday and discussed at length question Indian recognition Communist government China. Discussion instigated by him since, accordance Department's instructions, I have refrained from raising question with GOI officials in view Depcirtel October 12, 11 p.m. [*a.m.*]

Indian Ambassador said he thoroughly disliked communism and that he did not intend press immediate recognition China by India. However, facts must be faced. India's position with a thousand-mile frontier with China was more pressing than economic interests British and US. Communism is a greatly overrated menace. It has flourished only in countries ravaged by war. If India had been occupied by Japanese troops, situation in India would be entirely different than it is today and would resemble Indochina or Indonesia. In countries other than those ravaged by war, communism has made no great headway. It may have nuisance value but nothing more; examples Ceylon, India.

⁹⁷ Not printed.

⁹⁸ Southeast Asia.

I said in endeavoring view situation from Indian standpoint we did not perceive any positive advantages from too hasty recognition and until some assurance was given new government intended live up to international obligations. Indian Ambassador replied he did not expect friendship from Communist government China through fact of recognition. However, if diplomatic relations were established countries so doing would be in better position protect their interests and might exert some modifying influence on Communist government whereas without recognition nothing could be achieved. He anticipates relations between India and China after recognition to be on basis "sound unfriendliness" such as now exists between Britain and Russia. Britain and Russia criticize each other publicly but both powers know that there is no danger of war. Communist government China will attack GOI on radio and indulge in pin pricks but both India and China know there is no danger of war.

Tibet⁹⁹ is not a problem with respect Communist infiltration into India other than as it affords access to Nepal which country is India's greatest danger. Nepal's "fourteenth century feudalistic" regime must eventually collapse and form of government which will replace it is definite source concern India especially since no geographical barriers separate Nepal from India. Indian Ambassador believes treaty between India [and] Nepal, with India guaranteeing Nepal's independence, would be good idea.

Tibet can be sealed off effectively. Infiltration China into India from Tibet no problem since trade routes from central Asia into India have always offered means infiltration but very little has been accomplished along that line despite fact that training school for Communist agents at Tashkent has been in operation many years.

Total number Chinese in India about 18,000 of which 10,000 in Calcutta. Chinese in India offer no problem except as connecting link with Communist China. Chinese have never been able obtain foothold in India economically as they have elsewhere in Southeast Asia. Therefore their Communist activities here will not be important.

Indian Ambassador was critical of VOA¹ program beamed on China and said deliberate misstatements of fact were made. He admitted Russian radio was equally distorted on subject China. Indian Ambassador believes situation Burma [and] Indochina hopeless and that they must eventually go Communist, probably dragging Siam with them. Indonesian Government has 60-40 chance of success.

⁹⁹ For further correspondence regarding Tibet, see pp. 1064 ff.

¹ Voice of America.

Britain can hold Singapore and probably Malaya. Indian population Malaya has never become involved in Communist activities except to very minor degree.

Why should US continue recognize Russia and withhold recognition Communist government China. Russia when recognized by US did not live up to obligations previous regime so why should US insist Communist government China assume obligations previous government. I think Panikkar is sincere in his statements, however fallacious they may be, and that he honestly believes India's interests would best be served by recognizing Communist government when present Nationalist Government disappears. I am inclined agree with him that Chinese population India no great threat but inclined believe he considerably overestimates seriousness problem for India which present regime Nepal represents. I feel sure his arguments as outlined here will have considerable effect on Nehru since they discount entirely any internal danger to India arising from recognition Communist regime China. I personally do not believe Chinese in India will be source of any great difficulty after recognition although as Patel² remarked if Communist government China took over Embassy here it could direct its propaganda machine more effectively and in this connection he mentioned large staff maintained Delhi by Russian Embassy.

Sent Department 1375, pouched Calcutta, Rangoon, Department pass London.

DONOVAN

893.01/11-749 : Telegram

The Ambassador in Australia (Jarman) to the Secretary of State

CANBERRA, November 7, 1949—4 p. m.

[Received November 7—8:12 a. m.]

237. Today's press carries story Australia is preparing recognize Communist regime China in near future. With these and Depintel November 2, 1 a. m.,³ in mind, Foster⁴ asked Burton⁵ whether there had been any change in Australian position. Burton said Australia still stood by position outlined Embtel 224, October 24, and had so informed UK in reply latter's recent approach. Added that in any

² Indian Deputy Prime Minister.

³ Not printed.

⁴ Andrew B. Foster, Counselor of Embassy in Australia.

⁵ John W. Burton, Secretary of the Australian Department of External Affairs.

case Government would not consider recognition before the federal elections on December 10 (the Government is being criticized by opposition for alleged failure deal vigorously with Communists in Australia). Burton dismissed press stories as lies.

Burton said his information was New Zealand strongly opposed to recognition while India would grant it ahead of everybody else.

Sent Department. Department pass London.

JARMAN

893.01/11-849: Telegram

The Ambassador in the Netherlands (Chapin) to the Secretary of State

THE HAGUE, November 8, 1949—1 p. m.

[Received 12:44 p. m.]

1077. With reference to Embassy's note of October 25⁶ based on Deptel 922, October 21, note from FonOff received today, after preliminary remarks, says following:

"The note further states that on October 17 the Netherlands Embassy at Washington furnished the Department of State with a copy of the Royal Netherlands note addressed to the Chinese Communist authorities, apparently in reply to Communist invitation for recognition.

"From the latter statement it would appear that there exists some misunderstanding on the part of the US Government. In this connection the Ministry wishes to emphasize that no note has been addressed by the Netherlands Government to the Chinese Communist authorities, but that only an oral message was conveyed to these authorities, the text of which was communicated to the US Government and other governments concerned well in advance of the eventual date of its delivery.

"The oral communication in question was not made in reply to a Communist invitation for recognition but was prompted by the consideration that a regime, exercising the virtual power in the greater part of China, can for practical reasons not be wholly ignored.

"The Ministry shares the hope of the Embassy that the full consultation between the Western Powers concerned, which was envisaged at the time, will precede decisions on the question of recognition and gladly gives the assurance that the Netherlands Government for its part will continue to adhere to this procedure."

Sent Department; repeated Paris 76, London 113.

CHAPIN

⁶ Not printed.

893.01/11-849 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, November 8, 1949—2 p. m.

[Received November 8—5 :22 a. m.]

2389. 1. Since question recognition first arose, British business interests China have urged earliest consummation and British diplomats here have taken contagion. At present, not only do virtually all responsible personnel British Embassy constantly and publicly state their expectation of recognition "within 1 or 2 months", but some also fret at Foreign Office caution and shortsightedness which they imagine can be only conceivable obstacle to it. Communists have subtly encouraged this attitude in definite preferential treatments. For instance, *Amethyst* escape⁷ clearly soft-pedaled after necessary initial blast movement British displeased in notable contrast impossibility most American moves, labor troubles with regard British have received less publicity and generally been settled with less fuss and there have been no direct official involvements comparable Ward and Soule cases.⁸ (Notably fewer efforts implicate British in espionage frame-ups all over world.) (Differences when arisen have been settled quietly and usually fairly soon, especially of late since *Amethyst* and *MacFarlane* cases resolved.) When similar cases arise or are produced with Americans, they are protracted indefinitely and every drop propaganda squeezed out. This adds up to definite effort, not only to prevent rapid American recognition by producing atmosphere in which it impossible, but also to split US and British on this matter. British, in their turn, have in many respects taken less adamant stands opposing Communist actions than we have (e.g., on taxes), thus reinforcing tendency relax tension.

2. Feel discussions with British in London, Washington and Paris should emphasize Ward and Soule cases their headache as much as ours, since strike at root status foreigners and diplomats China. If happens to us today, may be their turn tomorrow. Embassy strongly feels this point on which principle should not be slighted and British should be requested in strongest terms not considered [*consider*] rec-

⁷ The British naval sloop *Amethyst*, fired on by Communist shore batteries along the Yangtze on April 20, 1949, escaped July 31 after being stranded for months.

⁸ For the case of Consul General Ward at Mukden, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I; for the case of Military Attaché, Brig. Gen. Robert H. Soule, at Nanking, see *ibid.*, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter II.

ognition while such cases unjustified coercion exist. Best of course if they can be persuaded make public announcement this effect as evidence solidarity. While impossible document, possibility exists that British feeling tinged with pleasant irresponsibility as white man's burden (in this case maintenance essential position Western nations on Consulate and diplomatic rights and on adherence normal procedures antecedent formal recognition) now falls on American shoulders, leaving British free to extract any political or economic profit from situation. Such attitude their part would of course be exactly what Communists trying produce.

Department pass Peiping its discretion.

Sent Department 2389. Department pass Shanghai 1223.

BACON

893.01/11-849 : Telegram

The Consul General at Singapore (Langdon) to the Secretary of State

SINGAPORE, November 8, 1949—5 p. m.

[Received November 8—9 :13 a. m.]

363. November 8 MacDonald⁹ invited same representatives mytel 339, October 26,¹⁰ to home last night to give account of Singapore Conference. Much same as Dening's (see mytel 360, November 7) but made no mention Indochina discussion owing presence French Consul General, also brought out following points unsaid by Dening.

(1) In case US should take different action in Mao recognition, conference recommended every effort be made to minimize difference by maximizing cooperation regional resistance to Communist expansion, economic, military and political aid to SEA countries, Point Four program,¹¹ et cetera.

(2) UK Government unlikely to disregard recommendation recognition view unanimity on it of conferees most competent to judge British interest each country.

Dening going Canberra 9th discuss conference with Foreign Minister. In Sunday talk said Bevin would ask Nehru in London to offer mediate between Karens and Dobis.

LANGDON

⁹ Malcolm MacDonald, British Commissioner General in Southeast Asia at Singapore.

¹⁰ Not printed.

¹¹ For President Truman's proposal in his inaugural address of January 20, see Department of State *Bulletin*, January 30, 1949, pp. 123, 125.

893.01/11-849: Telegram

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

PARIS, November 8, 1949—8 p. m.

[Received November 8—2:28 p. m.]

4670. From Secretary. Before getting into discussions with British and French on recognition Chinese Communists, believe it desirable have additional material re legal complications of recognition in terms of membership in UN and Security Council to supplement paper CFE/D-2.¹² [Acheson]

BRUCE

893.01/11-849: Telegram

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

Moscow, November 8, 1949—midnight.

[Received November 8—5:51 p. m.]

2793. View possibility Secretary will have occasion Paris discuss recognition Communist China with Bevin and Schuman, Embassy has reviewed comments it has submitted this subject in light subsequent developments with particular reference British attitude (London's telegram 4353, October 31¹³).

Embassy continues feel valid position taken its telegrams 2155, August 26; 2538, October 7; and 2601, October 15, that US policy China should contemplate (1) maintenance of diplomatic relations without prejudice disapproval regime, and (2) parallel economic aloofness with maximum controls of contacts contributing to enhance industrialization and thus economic-military potential Soviet bloc. Also concur desirability that establishment relations should preferably be accomplished in due course as situation develops and that it is important precipitous action that regard be avoided. Seems to us material factors pointing towards advisability postponement immediate recognition are (1) that important areas China (notably Chungking, wartime Chinese capital) not yet included Communist control, and establishment relations with government not obviously in *de facto* authority would appear premature, (2) that so long as Soviets have not formally raised issue, it would be unwise for West to take step likely upset and further complicate status Nationalist representatives current session GA with result Chinese case there, which we have supported, might not receive public airing to which

¹² November 5, p. 168.¹³ Not printed, but see memorandum by the British Embassy, November 1, p. 151.

at least it would appear entitled, and (3) that in face US public statements concerning Chinese policy US recognition now could be interpreted as ensuing from British and other pressures, a conclusion that would tend be corroborated if action preceded public report findings and recommendations Chinese policy committee.

We think these considerations are impressive and firmly believe that if, as implied British circularization other governments (London's 4353), British anticipate immediate recognition, strong representations should be made to dissuade them.

We have considered possible alternative timing. Presumably indefinite delay followed by ultimate recognition would emphasize reluctance with which step finally taken and cede increasing initiative to Soviet policy China. As possibly best bet, suggest that occasion of contemplated Baguio conference or similar meeting might afford opportunity for general simultaneous Western recognition to be accomplished as logical sequence to decision such conference. Should collective representatives of free peoples Southeast Asia determine to take note situation China and, although condemning dictatorial Communist regime there, to establish diplomatic relations as practical matter, parallel US, UK, French, etc., action premised on lead Asian democracies would have merit of giving endorsement to policy of those nations most directly concerned. Manifestly participation or possibly leadership of India in such a collective determination would be important.

Sent Department 2793, Department pass Paris for the Secretary 394, London 305.

KIRK

893.01/11-849

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 8, 1949.

Participants: Mr. Hubert Graves, Counselor, British Embassy
Mr. Butterworth, Assistant Secretary
Mr. Sprouse, CA

Mr. Graves called by appointment this afternoon and handed Mr. Butterworth the two attached memoranda, dated November 8, 1949: (1) conclusions reached by the British Conference held at Singapore November 2-4 regarding the question of recognition of the Chinese Communist regime¹⁴ and (2) estimate by the Conference of the effect

¹⁴ *Infra.*

of recognition of the Chinese Communist regime on certain countries and territories in Southeast Asia.¹⁵ Mr. Graves pointed out that the conclusions of this Conference did not mean that the British Government had reached a final decision in the matter and added that the Foreign Office had not yet received any replies to the memoranda handed by British representatives to the various Western European countries and the Commonwealth governments.

Mr. Butterworth noted the third paragraph of the memorandum setting forth the conclusions reached regarding the question of recognition, which stated that "from the point of view of the situation in Southeast Asia and the Far East generally such recognition is desirable as early as possible and in any case by the end of the year", and said that, while he could explain the British view of this question in so far as the British position at Hong Kong and British investments in China were concerned, he could not follow this reasoning with respect to Southeast Asia and the Far East in general. He pointed out that the second of the two attached memoranda actually seemed on balance to argue against early recognition or at least to furnish no particular reason therefor, this being particularly true of the British estimate of the effect on the Bao Dai regime in Indochina.

Mr. Graves replied that he did not know the reasons for the statement made in the third paragraph referred to by Mr. Butterworth and that he could only suggest that it was believed that early recognition might lessen the likelihood of unrest and agitation stirred up by the Chinese Communists in Southeast Asia and that it might also more readily serve to keep the Chinese Communists within their own borders than if they were not recognized and not treated as a legitimate government.

During general discussion of the memoranda Mr. Butterworth and Mr. Sprouse pointed out that it had been the Department's opinion that the effect in Southeast Asia of early recognition of the Chinese Communist regime would be generally unfavorable and that the estimate of the British Conference at Singapore had not actually differed materially from the Department's estimate.

Referring to Mr. Butterworth's previous query whether the British had had any exploratory discussions regarding recognition with the Chinese Communists through intermediaries at Shanghai or Hong Kong, Mr. Graves said that he had passed this query on to the Foreign Office and that the latter had replied that no such discussions had been held.

¹⁵ Not printed.

Mr. Butterworth confirmed to Mr. Graves that the Department had received a brief telegraphic summary of the British Conference conclusions forwarded by the Consul General at Singapore but that we had not yet received the full text of the document which had been handed to him by the British representatives at Singapore and which he was forwarding by pouch. In reply to Mr. Butterworth's request, Mr. Graves agreed to make available to the Department the text of this document as soon as it should be received by the British Embassy. He concluded that the results of the Conference would, of course, have to be studied by the British Government.

S93.01/11-849

*The British Embassy to the Department of State*¹⁶

MEMORANDUM

The conference of United Kingdom representatives which was held at Singapore from 2nd to 4th November reached the following conclusions regarding the question of recognition of the communist government in China:—

The Bukit Serene Conference considers that British interests in China and in Hong Kong demand earliest possible *de jure* recognition of the communist government in China.

The conference is of the opinion that from the point of view of the situation in South East Asia and the Far East generally such recognition is desirable as early as possible and in any case by the end of the year.

It considers that no formal conditions can be attached to such recognition but that His Majesty's Government in according it should make a unilateral statement of their assumption that the new government accepts China's existing international obligations.

The conference also considers that:—

(a) recognition should not involve any weakening but should indeed be accompanied by a strengthening of our resistance to the spread of communism in the area, and

(b) an extensive propaganda campaign should be launched to explain that the recognition does not involve any inconsistency with our

¹⁶ Handed by the Counselor of the British Embassy (Graves) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth) on November 8; repeated in telegram No. 4327, November 9, 7 p. m., for the Secretary of State in Paris.

policy of opposition to communism in South East Asia. Hong Kong should not take any direct part in this.

WASHINGTON, 8 November, 1949.

893.01/11-949 : Airgram

The Chargé in the United Kingdom (Bliss) to the Secretary of State

LONDON, November 9, 1949.

[Received November 14—1:22 p. m.]

A-2062. [Here follows report on Singapore Conference similar in substance to report given in memorandum of conversation on November 8, printed on page 184.]

On the afternoon of November 8, Mr. Peter Scarlett, Head of Far Eastern Department, Foreign Office . . . stated that, although in general the reactions received from the interested friendly governments up to the present were only of a preliminary nature (Embtel 4353, October 31¹⁷), on the whole they were sympathetic with the British inclination toward early recognition. Two of the powers consulted had emphasized that it would be embarrassing to recognize the new government before the end of the present session of the UNGA.

BLISS

893.01/11-1049

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 10, 1949.

Participants: Senhor Pedro Theotónio Pereira, Ambassador of Portugal
 Mr. Butterworth, Assistant Secretary
 Mr. Dunham, WE
 Mr. Sprouse, CA

The Portuguese Ambassador called this afternoon by appointment and explained that he would like to review with Mr. Butterworth the situation in China and its relation to the problem of Macao. He referred to the recent British approach to his government regarding the question of recognition of a Chinese Communist regime and said that it seemed to indicate that the British Government was disposed toward

¹⁷ Not printed.

early recognition. He said that if the British Government did recognize the Chinese Communist regime it would, of course, be extremely difficult for the Portuguese Government not to follow suit, particularly in view of the position of Macao. He asked if there had been any change in the Department's position in this regard since his conversation of several months ago with Mr. Butterworth.

Mr. Butterworth, after stating that there had been no change in the Department's position, stated that we still felt it desirable for the friendly interested governments to maintain a common position with regard to recognition. He further stated that of course at present the Chinese Communists had not gained control over the entire area on the mainland, sizable areas of which were still in non-communist hands. He stated that the Department did not believe that anything could be gained through hasty action on this question. He said that it was realized of course that the British position with respect to the large British investments in China and the problem of Hong Kong played a considerable part in British thinking on this question. Referring to the Communist treatment of Consul General Ward and his staff at Mukden, Mr. Butterworth pointed out that this Government could under these circumstances give no consideration to the question of recognition.

The Portuguese Ambassador then expressed an interest in the general situation in China and the Chinese Communist regime at Peiping. Mr. Sprouse gave a brief summary description of the Chinese Communist regime and the situation in China, as reported by officers in the field.

The Ambassador indicated that the Portuguese Government would probably not expect to obtain any commitment from the Chinese Communist regime regarding Macao in the event that it decided to extend recognition, since such a commitment would obviously be worthless. He added that the Governor of Macao would, however, probably seek and be able to obtain some assurances regarding Macao from Chinese Communist authorities in the Canton area. He seemed to feel that these assurances, in keeping with the traditional Chinese practices, would be worth much more than any assurances from a Chinese Communist regime at Peiping. He further indicated that the Portuguese forces at Macao represented only a "moral" force in terms of meeting a possible Chinese Communist attack and that the colony could not be defended against a determined attack. In conclusion, he reiterated that the Portuguese Government would find it extremely difficult not to recognize the Chinese Communist regime if the British Government took such action.

740.00119 Council/11-1149 : Telegram

*The Ambassador in France (Bruce) to the Secretary of State*¹⁸

[Extracts]

PARIS, November 11, 1949—3 a. m.

[Received 5 :33 a. m.]

4716. For President and Webb¹⁹ from Secretary. [Here follows section relating to European subjects discussed at the opening meeting of the Council of Foreign Ministers on November 10.]

In taking up China problem Schuman outlined major questions facing France, which he felt were common to three powers, as:

(1) Attitude toward Communist regime, considered both in terms of situation in China and in UN. For French this issue hinged not on what faction controlled most of area of China, but on which faction controlled area bordering Indochina.

(2) Problem presented by approach of Nationalist troops to Indochina.

(3) Indochina problem itself, which would present grave difficulties if Communists able to establish direct contact with Ho Chi Minh. He admitted failure of French Parliament to approach [*approve?*] agreement with Bao Dai, but stated belief Bao Dai was only solution and urged some immediate gesture by US and UK to show that we supported current French policy.

In reply I stated that we had agreement for joint consultation on China, which we expected to follow. It was further our view that there is no need for haste in approaching recognition of Communist regime. We felt Communists must first satisfy certain conditions, such as release of Consul General in Mukden, respect for international agreements and assurances on US property in China. On Indochina I told Schuman we wanted to be as helpful as possible, and that we would consider any specific proposals French cared to make although basically we felt task was for French to take further action.

Bevin stated that matter of recognition was currently receiving careful attention by British, and that they had problem of coordinating with Commonwealth countries and with other interests. Sooner or later recognition step must be taken, but certainly not while China case on GA agenda, nor before Dutch transfer responsibility to Indonesians, and Australians did not want it before their elections. This would mean mid-December at earliest. On Indochina he indicated

¹⁸ For changes later made in this telegram, see telegram No. 3922, November 12, 5 p. m., from the High Commissioner in Germany, *infra*.

¹⁹ James E. Webb, Under Secretary of State, Acting Secretary while the Secretary was in Paris attending meetings of the Council of Foreign Ministers.

willingness to take steps after French take action and then expressed some fears about situation in Formosa where he said Nationalists had large arms supplies which they considered not as potential against Communists, but as source which would be surrendered to Communists and possibly used against Hong Kong and Indochina.

Sent Department 4716, repeated London 813, Frankfort 130. [Acheson.]

BRUCE

893.01/11-1249 : Telegram

The United States High Commissioner in Germany (McCloy) to the Secretary of State

FRANKFORT, November 12, 1949—5 p. m.

[Received 7:18 p. m.]

3922. From Secretary. Amend eighth paragraph Paris telegram 4716 to Department,²¹ repeated London 813, Frankfort 130, to read as follows:

“In taking up China recognition question, Schuman touched briefly on vast and complex political problem which all three faced as major powers and members UN, and then outlined special problems facing France because of common boundary: Subparagraph *a*: Difficulty of France to recognize Chinese Government which did not control border territory; subparagraph *b*: Threat of Nationalist troops retreating into Indochina and subparagraph *c*: Indochinese problem itself involving hostilities in which France while perhaps appearing as defending her own special interests was also fighting communism and Communists. This problem would become acute when Chinese Communist forces made contact with Ho Chi Minh and France would need help, not military but political. Bao Dai was loyal partner and strengthening him offered only solution, therefore Schuman asked that US and UK approach Bao Dai directly and inform him that they approved of association between him and France and of common policies being worked out. Schuman did not ask for recognition of Vietnam, realizing that this could not be expected until after ratification Vietnam, Laos, and Cambodia Agreements by French Parliament.”

Rewrite last sentence next paragraph as follows:

“On Indochina I told Schuman we felt that French were on right track with Bao Dai (although perhaps not moving as fast as desirable) and we wanted to be as helpful as possible. I said we would consider

²¹ i.e., paragraph following bracketed note in telegram No. 4716, *supra*.

sympathetically any specific proposals French cared to make although basically we felt that primary task was French."

Sent Department 3922; repeated London 253, Paris 294. [Acheson.]
McCloy

893.01/11-1449

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 14, 1949.

During the course of a conversation on another subject, Mr. Graves referred to the British Embassy's note of November 1 regarding the question of recognition of the Chinese Communist regime and asked if the Department had yet prepared a reply. I pointed out that the Secretary had discussed this general question with Mr. Bevin at Paris and that I felt certain that no reply could be expected until after the Secretary's return.

893.01/11-1449

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 14, 1949.

Participants: Mr. Ralph E. Collins, Second Secretary, Canadian Embassy
Mr. Merchant, Deputy Assistant Secretary
Mr. Sprouse, CA

Mr. Collins called today by appointment and stated that he had been instructed by his government to inform the Department of the Canadian Government's reaction to the British note of November 1 regarding recognition of the Chinese Communist regime. He said that the Canadian reply, which had already been sent to London, expressed the opinion that recognition should come sooner rather than later. He explained that this decision had not yet received Cabinet approval. He continued that the Canadian Government had weighed the pros and cons of the question and had decided that the advantages outweighed the disadvantages. The Canadian Government was, however, of the opinion that recognition should not be extended prior to the adjournment of the General Assembly. He stated as his personal opinion that the Canadian Government contemplated recognition shortly after the first of the new year. Asked

whether the Canadian Government expected to extend recognition without any assurances of respect for international obligations or of minimum standards of conduct on the part of the Chinese Communist regime, Mr. Collins replied that the Canadian reply to the British had indicated that the criteria of control of territory and acquiescence of the people seemed to be fulfilled and that no reference had been made to the question of obtaining commitments from the Chinese Communist regime. He asked what the reaction of the U.S. Government was to this question.

Mr. Merchant stated that we appreciated being informed of the Canadian action in this regard and explained that the Department felt that the maintenance of a common front on this question by the interested Western powers was to the advantage of all concerned. He said that the U.S. Government obviously could not and would not consider the question of recognition so long as the Communists subjected Consul General Ward to the treatment now being given to him. Mr. Sprouse referred to the Smith-Bender case²² and to the refusal of the Chinese Communists to issue an exit permit to General Soule and pointed out that the general treatment of U.S. officials in China by the Chinese Communists had been such as to raise serious doubts regarding the future treatment of foreign officials in China. Mr. Merchant characterized such treatment as completely uncivilized and added that, even should such "barbarisms" be removed tomorrow, there was no reason to believe that the U.S. Government would immediately give consideration to recognition. He emphasized the desirability of at least obtaining some indication from the Chinese Communists that they were prepared to live up to normal standards of international conduct. He pointed out that the treatment of Consul General Ward actually should be of concern to all the friendly Western powers even though this particular case affected only a U.S. official. Mr. Sprouse pointed out that even though any assurances that could be obtained from the Chinese Communists might be worthless, it seemed foolhardy for any power to rush into recognition in the face of present Chinese Communist actions. He pointed out that it was not to the advantage of any government to extend recognition hastily. Mr. Merchant said that obviously it would be desirable for all the friendly Western powers to take a common stand in the matter, but that, of course, it was realized that the thinking of the various concerned powers was based upon their own interests in the matter.

Mr. Collins said that he would inform the Canadian Government of the views of the Department in this regard.

²² See vol. VIII, footnote 31, "Political and military situation in China", chapter V.

893.01/11-1549 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, November 15, 1949—9 a. m.

[Received November 14—11:03 p. m.]

2427. ReDepintel November 10.²³ Our impression is that Titoism arose in Yugoslavia not because of any action or failure to act on part of Western Powers, but as direct results of action injurious to Yugoslav political independence and economic reconstruction. We consider estrangement between China and USSR will probably arise in same way and our recognition at this time could contribute little or nothing to this development.

BACON

893.01/11-1649 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, November 16, 1949—6 p. m.

[Received November 16—2:57 p. m.]

4587. At invitation Bevin, HCs²⁴ [of] Commonwealth Governments called at Foreign Office in body afternoon 15th exchange views recognition Chinese Communists. View HCS about as anticipated as follows:

- a. India: Earlier the better.
- b. Canada: In favor of recognition, but timing conditioned to some extent by US opinion.
- c. Australia: Some effort should be made through informal contact with Communists to obtain prior promise of good behavior.
- d. New Zealand: No firm opinion.
- e. Pakistan: No views.
- f. General consensus that recognition should be coordinated so far as possible.

According to Scarlett, Embassy's informant in Foreign Office, Bevin specifically directed that report of conference be forwarded Department, but CRO²⁵ which handled details moves slowly and report will probably not be embodied in telegram to British Embassy, Washington, before 21st.

²³ Not printed; it reported on the Singapore conference (800.00 Summaries/11-1049).

²⁴ High Commissioners.

²⁵ Commonwealth Relations Office.

When Embassy officer referred to report New Zealand had emphatically gone on record as being against recognition, Scarlett intimated Fraser²⁶ was busy electioneering and had not given matter sufficient thought.

Scarlett's best estimate timing British recognition early January.

As yet no firm date Ceylon conference, although January 9 suggested.

Sent Department 4587, repeated Canberra unnumbered, Delhi 109, Wellington unnumbered.

DOUGLAS

893.01/11-1649 : Telegram

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

PARIS, November 16, 1949—6 p. m.

[Received November 16—2:26 p. m.]

4790. According to Baeyens, Bevin told Massigli²⁷ yesterday that UK was not considering recognizing Chinese Communists before end of year and he would attempt to arrive at common position with US and France before taking action. Baeyens thinks British may not act before question is considered at Ceylon Commonwealth Conference in January. He said France was ready to take action in near future.

Sent Department 4790, repeated London 828.

BRUCE

893.01/11-1949 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, November 19, 1949—11 a. m.

[Received November 19—12:55 a. m.]

2459. Dutch officer in charge, Devoogd, informs me he very pleased British will be unable take any step toward recognition until after Ceylon conference in January. Also states Netherlands Government has no intention taking any step until after transfer Indonesian sovereignty December 30 in order not embarrass any Indonesian Government with possibly unwanted relations with Communist China.

BACON

²⁶ Peter Fraser, New Zealand Prime Minister and Minister of External Affairs.

²⁷ René Massigli, French Ambassador in the United Kingdom.

501.BB/11-2049 : Telegram

*The United States Representative at the United Nations (Austin) to
the Secretary of State*

NEW YORK, November 20, 1949—3 :21 p. m.

[Received 5:40 p. m.]

DelGA 233. Following is copy of official text of communication received by SYG²⁸ from Communist government in China:

“Peking’s 291/290 18/11 1535.

“Mr. Trygve Lie, Secretary-General of the United Nations Organization, Lake Success, New York.

“The Central Peoples Government of the Peoples Republic of China was formally formed on October 1st. On the day of its formation, Chairman Mao Tze-tung of the Central Peoples Government solemnly proclaimed to the world:

‘The Central Peoples Government of the Peoples Republic of China is the sole legal government representing all the people of the Peoples Republic of China. The Central Peoples Government of the Peoples Republic of China has now fundamentally liberated the territory and people of all China and also won the enthusiastic support of the people throughout the country, while the Kuomintang reactionary government is now in exile and dispersed and its remnant forces will soon be eliminated.’

This reactionary government has lost all *de jure* and *de facto* grounds for representing the Chinese people.

“The so-called, ‘Delegation of the Chinese National Government’ participating in the United Nations Organization and attending the present session of the United Nations General Assembly in the name of the Chinese people has therefore become the tool of a handful of exiled elements, and is absolutely unqualified to represent the Chinese people.

“On behalf of the Central Peoples Government of the Peoples Republic of China, I formally demand that the United Nations Organization immediately deprive the ‘Delegation of the Chinese National Government’ in accordance with the principles and spirit of the United Nations Charter,²⁹ of all rights to further represent the Chinese people in the United Nations, so as to conform to the wishes of the Chinese people.

“Chou En-lai, Foreign Minister of the Central Peoples Government of the Peoples Republic of China.”

AUSTIN

²⁸ Secretary-General of the United Nations.

²⁹ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031.

893.01/11-2249

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

[WASHINGTON,] November 22, 1949.

Participants: Madame Vijaya Lakshmi Pandit, Ambassador of
India

Mr. Webb, Under Secretary

Mr. Mathews,³¹ SOA

The Indian Ambassador called at her request. She handed me a note dated November 21 transmitting a memorandum³² setting forth the views of her government on the recognition of the Communist regime in China. The Ambassador explained that the message from New Delhi transmitting these views had crossed the Secretary's appeal with respect to the Ward case.³³

After reading the memorandum, I said that my Government appreciated receiving the views of the Government of India. Although I indicated that we should like to study the memorandum before addressing ourselves specifically to its contents, I did say that our own approach was one of an historic interest in the welfare of the Chinese people. It seemed to us that we should be sure that the Communist regime would show a real regard for the interests of the Chinese people, both internally and in its relations with the rest of the world. The Chinese Communists' disregard of normal international practices as revealed in our experience, leads us to wonder whether they would act in the interests of the people of China. The Ambassador commented that she could appreciate our point of view.

[Here follows discussion of Indo-Pakistan matters.]

As the Ambassador was leaving I expressed my deep gratification at having had the opportunity to meet her brother, the Prime Minister, and also Sir Girja Bajpai.³⁴

893.01/10-2549 : Airgram

The Secretary of State to the Ambassador in Korea (Muccio)

WASHINGTON, November 22, 1949.

A-230. Re your A-336 October 25 Department assumes President Rhee not being permitted to lose sight of serious and adverse effect

³¹ Elbert G. Mathews, Director of the Office of South Asian Affairs.

³² Not printed. It set forth the position of the Indian Government in favor of recognition of the Peoples Republic of China, preferably before the end of December 1949 (893.01/11-2149).

³³ See circular telegram of November 18, 10 a. m., vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

³⁴ Secretary General of the Indian Ministry of External Affairs.

on international position of Republic of Korea which would result from decision of Korean Government to sever relations with British Government over issue of Chinese Communist recognition.

ACHESON

893.01/11-2349 : Telegram

*The Ambassador in the Philippines (Cowen) to the Secretary of State*³⁵

MANILA, November 23, 1949—3 p. m.

[Received November 23—4:09 a. m.]

2652. Under Secretary Foreign Affairs Neri November 22 told Embassy officer he has been informed by Doctor Tambu, ConGen Indonesian Republic, that his Government is prepared recognize Chinese Communist regime. He added that he had been given understand Indonesian Republic motivated by desire itself obtain recognition of that regime.

INS correspondent Frank Emery quotes source which he regards as most reliable as stating Tambu explained internal situation Indonesia renders recognition Chinese Communists desirable and that Indonesian Republic accordingly will not be in position participate SEAU.³⁶

COWEN

893.01/11-2349 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 23, 1949—4 p. m.

[Received November 23—12:44 p. m.]

1453. Khoman, Thai Chargé d'Affaires who leaves Delhi for Bangkok on transfer November 25, commented as follows re China: Thai wishes follow lead of US re recognition Communist government. However, British recognition Communist government will make position Thai difficult owing proximity Malaya and large numbers Chinese both in Malaya and Thai. This connection, Bajpai told me yesterday Burma wishes recognize Communist government China "almost immediately".

³⁵ Repeated as telegrams Nos. 591 and 1059, November 23, 7 p. m., to the Embassy in the Netherlands and the Consulate General at Batavia, respectively, with instruction to inquire whether the reported remarks accurately reflected the attitude of the Indonesian Government toward recognition of the Peiping regime, the Department having understood previously that Indonesia was not eager to recognize the Chinese Communists.

³⁶ Southeast Asia Union.

Khoman said his opinion Thai Government not well equipped deal with internal disorders which might be started by Communists.

In opinion Khoman, UK and GOI recognition Chinese Communists will be followed by immediate transfer of allegiance those Chinese minority groups SEA which have not already gone over. He feels these groups may then be more, not less, difficult to deal with. He also remarked he was afraid forthcoming manifestation increased US interest SEA such as Jessup's visit Bangkok and meeting of US Ambassadors³⁷ somewhat belated as GOI likely to have recognized Communists before then.

Sent Department 1453, repeated Bangkok unnumbered, Department pass London.

DONOVAN

893.01/11-2349

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant)

[WASHINGTON,] November 23, 1949.

Mr. Graves of the British Embassy came in by appointment this morning to tell me "in confidence" that the Embassy had received this morning from London a telegram stating that the High Commissioner of India in London had informed Mr. Bevin of Nehru's decision to recognize the Chinese Communist Government sometime between December 15 and December 25, but in no event prior to the end of the General Assembly.

Mr. Graves then discussed the good news of Angus Ward's release and asked what we proposed concerning the multilateral *démarche* which we had set in motion. I told him that no decision had been reached on this but that our preliminary thinking was that we should dispatch a circular telegram to the original recipients telling them that we had received word of Ward's release from prison but that we remained of the opinion that an expression of the concern with which the other governments viewed this matter was still in order, particularly in view of the fact that we had no information as to the treatment or trial of Mr. Ward, nor in fact do we have any assurance that he and his staff would in fact be permitted to depart from Mukden. I assured Mr. Graves that as soon as a decision had been reached on this matter by us we would communicate it to him.

³⁷ For Far East tour of Ambassador at Large Philip C. Jessup to attend Bangkok Conference at end of January, see White House press release of November 17, Department of State *Bulletin*, November 28, 1949, p. 800.

893.01/11-2549 : Telegram

The Ambassador in the Netherlands (Chapin) to the Secretary of State

THE HAGUE, November 25, 1949—6 p. m.

[Received November 26—12:47 a. m.]

1171. We informed Boon³⁸ contents Manila's 2652 (Deptel 1059, November 23). In commenting, Boon first remarked that Hatta³⁹ had made statement re early recognition by RIS⁴⁰ of Chinese Communist government when he passed through Cairo en route Hague-Batavia. Boon then said high ranking Indonesians are generally sympathetic Nehru's attitude re Chinese Communists and that it was not unlikely that India would soon accord recognition and thus precipitate avalanche of similar recognitions. Boon feels that little can be done to stop such developments.

He added, however, that Dutch feel most strongly that Netherlands should not recognize Chinese Communists before sovereignty transferred to Indonesia. He handed us copy of *aide-mémoire* of November 21 to British Embassy here⁴¹ re Netherlands attitude question recognition Chinese Communists, adding that Van Kleffens⁴² had been furnished with copy which he had presumably given Department. We are, however, forwarding full text *aide-mémoire* air mail.

CHAPIN

893.01/11-2849

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 28, 1949.

Participants: Mr. Hubert Graves, Counselor, British Embassy
Mr. Butterworth, Assistant Secretary
Mr. Sprouse, CA

Mr. Graves called this afternoon by appointment and presented the attached document,⁴³ which, he explained, was the summary of the results of the meeting between Mr. Bevin and the High Commissioners of the Commonwealth Governments in London on November 15 re-

³⁸ Hendrik N. Boon, Acting Secretary General of the Netherlands Ministry for Foreign Affairs.

³⁹ Mohammed Hatta, Vice President of Indonesia and concurrently Prime Minister.

⁴⁰ Republic of Indonesia (United States of Indonesia).

⁴¹ Not printed.

⁴² E. N. van Kleffens, Netherlands Ambassador in the United States.

⁴³ *Infra*.

garding the question of recognition of the Chinese Communist regime. He further explained that the British position was still that the problem had not yet been referred to the Cabinet for a final decision but that general thinking favored recognition by the end of the year.

Mr. Butterworth pointed out that it was the Department's understanding that the Government of India had reached a more definite decision with respect to the question of recognition than was indicated in the attached memorandum. Mr. Graves concurred and said that he had just recently communicated to Mr. Merchant later information in this regard. Mr. Butterworth said that it was his understanding that the Government of India expected to extend recognition some time between December 15 and December 25.

Mr. Graves asked that the contents of the memorandum be treated as confidential since the Commonwealth Governments would probably inform the Department of their views regarding the question of recognition.

893.01/11-2849

*The British Embassy to the Department of State*⁴⁴

1237/93/49

MEMORANDUM

Mr. Bevin and the Secretary of State for Commonwealth Relations⁴⁵ met the High Commissioners of the Commonwealth Governments in London on 15th November and the question of recognition of the Chinese communist government was discussed.

The views of Commonwealth Governments were briefly as follows:

Canada. The Canadian Government realised that recognition was inevitable, but they were in no hurry to take this step. Reasons for caution were:—

- (1) repercussion of recognition on Chinese living in Canada.
- (2) Canadian interests still remain largely in territories controlled by Nationalists in West China.
- (3) reluctance to march out of step with the United States.

Australia and New Zealand. Both Governments see difficulties about immediate recognition and would prefer to postpone any decision until some time after their respective elections. The Australian Government also considers that an unofficial approach should be made to the communist government to obtain assurance of respect for international obligations and territorial integrity of neighbouring coun-

⁴⁴ Handed by the Counselor of the British Embassy (Graves) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth) on November 28.

⁴⁵ Philip Noel-Baker.

tries. Dr. Evatt has publicly announced that the question should be discussed at the Colombo Conference.

India. The Government of India are in favour of early recognition and may act independently if general recognition is too long delayed.

Pakistan and Ceylon. Both Governments' views generally coincide with those of the United Kingdom.

It will be seen from the above that differences are on timing rather than on principle. While making it quite clear that he had not consulted his Cabinet colleagues, Mr. Bevin gave it as his impression on the question of timing that it would probably suit the general convenience of Commonwealth and other friendly governments if the act of recognition was delayed for some weeks.

The reasons for such timing were:—

(a) The Chinese motion in the United Nations and the present Assembly Session would be ended.

(b) The new Australian and New Zealand Governments would have been formed and elections over.

(c) The Netherlands Government wished to delay recognition until after the transfer of sovereignty in Indonesia which will be not later than December 30th.

(d) The French wished to delay recognition until after ratification of the agreements with Bao Dai, because of the discouraging effect that prior recognition of the communist government might have on his supporters.

The meeting was aware that the detention of the United States Consul-General in Mukden still remained a most serious obstacle to recognition for the United States.

WASHINGTON, 28 November, 1949.

893.00B/11-2849

Memorandum of Conversation, by the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 28, 1949.

Participants: Mr. Thomas C. Davis, Canadian Ambassador to China
 Mr. Ralph Collins, Canadian Embassy
 Mr. W. Walton Butterworth, Bureau of Far Eastern Affairs
 Mr. Livingston T. Merchant, Bureau of Far Eastern Affairs

Ambassador Davis, who is staying at the Canadian Embassy on a brief visit to Washington, came in by appointment this morning to

see me. He explained that he wished to renew his old acquaintance and communicate for what they might be worth the conclusions which he had reached from his two and a half years in China.

First, he said he had no doubt that the Communist leaders of China were orthodox Communists who regarded the Soviet Union as their one great friend and whose foreign policy line they would faithfully follow. Secondly, Judge Davis said he was convinced that because of the basic characteristics of the Chinese people, the present Communist leaders in China would be unable to "Communize" the Chinese people. Thirdly, he believed that the nation which had exerted the greatest influence in China for the past century and toward whom the Chinese people were basically the most friendly is the United States. He referred to the widespread recognition that of all the great powers the U.S. was the only one that had pursued a non-predatory policy with respect to China and, in fact, had given greatly of its substance and friendship to China. Lastly, he expressed the opinion that by ultimately recognizing the Peking regime, the United States could best in future exercise its potentially great influence, which would not be easily or quickly dissipated by the Communists' propaganda. In this connection, he recognized that consideration of such a move was out of the question at the present time and he accepted as fact that the United Kingdom and certain other nations, including members of the Commonwealth, would recognize Peking before we did. As a matter of tactics, he expressed the hope that recognition by such nations would be spread over a period of time in order to avoid simultaneous recognition by all of the Western Powers except the United States, thereby leaving the United States in a position of prominent isolation.

Ambassador Davis's estimate of the future was, on the whole, optimistic. He believes that the present Communist leadership in its necessary search for administrative and technical skills will be forced to dilute itself by admission to high positions of non-Communists who will exercise an increasingly moderating influence. He intimated also that he felt the Russians by their natural arrogance would encounter difficulties of their own making. I pointed out that his appraisal seemed to omit the possibility or probability of a complete ruthlessness on the part of the Chinese Communists which would result in the liquidation of non-Communists once their usefulness had passed and, in any event, before they could become a threat to the present leadership.

It was apparent that Ambassador Davis, who always worked on the closest terms with our Embassy in Nanking, had made this visit to Washington for the purpose of informally supplementing the Cana-

dian Embassy's earlier formal notification to us of Canada's intention to recognize Peking in the not distant future.

893.01/11-2849 : Telegram

The Consul at Tientsin (Wellborn) to the Secretary of State

TIENTSIN, November 28, 1949—9 a. m.

[Received November 30—3:45 a. m.]

975. Following for Department's consideration re recognition Chinese Communists.

It occurs to us that if Department is contemplating recognition Chinese Communists in near future, consideration may be given sending delegation special negotiators discuss with Communists their aims and objectives toward US in general and American nationals, business, and other interests in China, in particular, and bargain for terms before granting even *de facto* recognition. Communists seem to have attached great importance to matter recognition and for US to grant it without making bargain (bargaining main essential way of getting things done with Chinese) would give Communists tremendous face and similarly loss of prestige for US with those Chinese who are not now and who may not in future be in accord with Communist policies and actions.

Further with reference ourtel 971 [972a?], November 25,⁴⁶ we observe gathering antipathy here toward Soviets and Department may wish hold off discussions with Chinese Communists re *de facto* recognition until possible Sino-Soviet breach becomes more noticeable. *De jure* recognition may be withheld until there is definite evidence of break away from Soviet camp. Our Government's granting *de jure* recognition at such time would strengthen stand those Chinese who still have and could be expected to retain respect for greatness of America and strength US Government.

WELLBORN

893.01/11-2849 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, November 28, 1949—5 p. m.

[Received November 29—12:30 p. m.]

4731. According Scarlett, Foreign Office, French Embassy, London, has informed him that Vatican is putting considerable pressure on

⁴⁶ Not printed.

French Government to recognize Chinese Communists arguing that until France and other nations with influential Catholic population recognize Communists Vatican cannot do so, and until Vatican recognizes Communists it lacks means to oppose communism in China [garbled group] protection Catholic interests there.

Sent Department 4731, repeated Paris 933.

DOUGLAS

893.01/11-2849: Airgram

The Ambassador in New Zealand (Scotten) to the Secretary of State

WELLINGTON, November 28, 1949.

[Received December 5—10:10 a. m.]

A-252. In the course of an informal conversation on November 24th with First Secretary Elting, McIntosh⁴⁷ said he wished the Bangkok Conference was going to be held sooner since he believed the question of recognition Communist China would be posed before then. When Elting remarked that conference was not very distant, particularly since nothing would be done until after the elections here and in Australia, and probably not until after the Commonwealth meeting in Ceylon, McIntosh stated that the UK was eager to grant recognition at the earliest possible moment. Elting then asked him whether Prime Minister Fraser had really considered the question and was firm in his opposition to recognition. McIntosh replied that Fraser was most definitely opposed but that he might possibly change his mind after the election. McIntosh explained that there could scarcely be any objection to recognition from the legal point of view, but the Prime Minister feels that it would give aid and comfort to the Communists and discourage anti-Communist elements. Elting then inquired whether the UK might not find it desirable to "play both ends against the middle" by the UK granting recognition while some of the Commonwealth countries withheld it on moral grounds. The reply to this was an emphatic "no" and left Elting with the distinct impression that the UK is putting heavy pressure on New Zealand, and probably Australia, to go along.

To emphasize the absence of material New Zealand interest which might affect their decision, McIntosh said they are mainly concerned about the position of the Chinese Consul General here, whom they all like, adding that they would like to postpone recognition in any case for as long as he cared to remain.

SCOTTEN

⁴⁷ Alister D. McIntosh, Permanent Secretary of the New Zealand Department of External Affairs.

893.01/11-2949 : Telegram

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

PARIS, November 29, 1949—8 p. m.

[Received 11 p. m.]

5022. Foreign Office confirms information given London's 933, November 28,⁴⁸ regarding Vatican's desire extend early recognition Chinese Communists. Foreign Office states Vatican reluctant to take lead, however, and is endeavoring to persuade some prominent Catholic country break the ice. French position, however, remains unchanged (Embtel 4790, November 16).

Sent Department 5022, repeated London 876.

BRUCE

893.00/11-3049

Memorandum of Conversation, by the Assistant Secretary of State for Congressional Relations (McFall)

[WASHINGTON,] November 30, 1949.

Participants: Senator Alexander Smith
The Secretary
H — Mr. McFall

Senator Smith opened the conversation by stating that he had come to see the Secretary just to give him the benefit of some observations that he felt quite strongly about in connection with Far Eastern developments.

He first made reference to what he considered to be a "divided military authority in the Far East". It was pointed out that General MacArthur⁴⁹ had complete control of both the economic and military problems in Japan and the surrounding islands and that the U.S. Navy was apparently in control in China, and in his and several others' opinions this provoked a state of affairs that was most undesirable and inefficient. The Senator did not appear to be too clear in his own mind as to what he thought should be done, but the Secretary gave him to understand that we had no military control of any kind in China now (the Navy having been withdrawn) and that any military decisions affecting China rest in the Pentagon Building. The Secretary told Senator Smith that we were giving consideration to the possibility of establishing an ambassador-at-large somewhere in the general area of the Far East who might be used to tie in loose ends and

⁴⁸ Same as telegram No. 4731, November 28, 5 p. m., from London, p. 203.

⁴⁹ General of the Army Douglas MacArthur, Supreme Commander, Allied Powers in Japan.

serve as a focal point for representing our interest in that area. It was emphasized, however, that no decision had been made on this subject as yet.

The Senator next expressed his serious concern about the disadvantages that would accrue to the United States in the recognition of China. He stated that it was his considered opinion that the ground for the current Chinese development had been laid in Russia as long as twenty years ago and that the Russians had worked assiduously on the fulfillment of their aggrandizement in this direction since that time. He stated that he could see no possibility whatsoever of any Titoism developing in China and that he felt any commercial advantages that might be gained out of recognition of the Communist regime would not compensate for the psychological defeat that would be ours as a result of recognition. The Secretary then told him that he had read the Senator's letter ⁵⁰ to him about China with interest and that he wanted to assure him that in the first place no thought would be given to recognition until *at least* three factors had been served—(1) that all or substantially all of the territory of China had actually been conquered; (2) that any government to be recognized had shown its fitness to comply with international obligations; and (3) that there was an evident will on the part of the people to accept the government that had been established. The Senator then asked him what he thought England would do regarding recognition. The Secretary replied that he believed they would certainly do nothing until after the conference in January with the Dominions, upon which occasion there was a probability that this issue would be canvassed thoroughly. What they would do thereafter the Secretary indicated he could not predict. The Senator stated that he had a talk with Chiang Kai Shek and "many other influential Chinese leaders". He stated that he had had extensive conversations with K. C. Wu ^{50a} for whom he had a very high regard. (It appeared that he had confined himself rather closely to the Chiang Kai Shek coterie in his discussions on China.) At this point in the conversation a complete difference of opinion arose between the Secretary and the Senator as regards Chiang Kai Shek "absconding" with the Chinese government funds. The Senator opined that he felt the Generalissimo took the only feasible course open to him in taking the government funds with him to Formosa. The Secretary replied that he could not share that thought in any way, that he felt the taking was absolutely wrong and that no fair view of the situation could permit of any other judgment. After a valiant but completely unsuccessful effort on the part of the

⁵⁰ November 5, p. 173.

^{50a} Former Mayor of Shanghai.

Senator to convince the Secretary that he should modify his view on Chiang, the Senator concluded by stating that it was obvious they shared different feelings on the subject but the main thing now was the future, not the past, and he then repeated his fervent hope that we would not accord any recognition to the Communist Government, certainly in the immediate present. The Secretary indicated he did not feel there was any real difference of opinion on that, that while he could not say we would *never* recognize the Communist Government he wanted to repeat the assurance that he would exercise every form of caution and considered study before any move in this direction was made. The Senator seemed to be satisfied with this statement.

Next the Senator brought up the question of Formosa. He stated that he had talked to "many military authorities" in the Far East who had told him that they regarded the retention of Formosa as of the utmost strategic importance to the United States. He said that his own personal view was that it was to our compelling interest to hold on to the island by any means short of actual war, and that he felt we should pursue the possibility of adopting one of two alternatives by way of protecting our interests in that area—(1) to arrange, if possible, a trusteeship of the island by the United Nations (he conceded that this was probably not practicable) or (2) a military occupation on our part of Formosa. It was his thought that such a military occupation would protect our strategic interests in that area which he regarded as "still strictly speaking a part of Japan," even though by the Cairo Declaration⁵¹ we had permitted the Chinese to take over. The Senator stated that he felt "it would be better for Communists to try to dislodge us from the island first before we would have to come in later and try to do the same thing with them". The Secretary said he felt the Senator should know that this subject is receiving constant consideration, that there had been a half dozen meetings with the National Defense on the subject, with another one arranged for this week, and that there is some difference of opinion among military authorities as to the strategic importance of the island. The Secretary said he hoped a firm decision concerning the matter would be forthcoming at an early date.

In passing, the Senator at this point told the Secretary he wanted to pay a tribute to the resourcefulness of Consul General Karl Rankin in Hong Kong, who, he stated, was a man of real ability and was doing a fine job under difficult circumstances.

⁵¹ For text of statement by President Roosevelt, Generalissimo Chiang Kai-shek, and British Prime Minister Winston S. Churchill, see *Foreign Relations, The Conferences at Cairo and Tehran, 1943*, p. 448.

The Senator next presented a suggestion which he asked the Secretary to turn over in his mind. He proposed the setting up of a combined sub-committee of the House Foreign Affairs and the Senate Foreign Relations Committees to go to the Far East with the idea of acting in an advisory capacity to Jessup, Fosdick and Case⁵² in their investigations of the situation in the Far East. The Senator seemed to feel this would be helpful to both Committees of the Congress in working on Chinese and other related problems in the future. The Secretary reminded him that the Department feels that a matter of this kind should be brought before the full Foreign Affairs and Foreign Relations Committees for discussion and made no commitment on the Senator's recommendation for the creation of the special group.

The Senator told the Secretary that his report,⁵³ which he will give to the Committee, of his trip to the Far East, will be mailed to the Secretary and to me within the next day or so.

On departing the Senator expressed to me his firm resolve to do everything he possibly can to prevent any political considerations from being brought next Congressional session into questions concerning our foreign policy, as he felt it was of transcendent importance that we avoid any appearance of any domestic disaffection for our foreign policies in the trying times in which we find ourselves.

993.01/12-149

Memorandum of Telephone Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 1, 1949.

Mr. Graves telephoned this morning and, speaking in guarded fashion, said that his Embassy had been directed by the Foreign Office to inform the Department that Mr. Bevin planned to present to the Cabinet for decision during the week of December 12-19 the question of the date on which the British Government would extend recognition to the Chinese Communist regime. He said that the Foreign Office would continue to keep the Department fully informed of all developments in this regard.

⁵² Raymond B. Fosdick and Everett Case on July 30 were appointed consultants to the Department on Far Eastern matters.

⁵³ Report to the Senate Foreign Relations Committee, November 29, 1949, *Congressional Record*, vol. 96, pt. 1, pp. 156-160, Exhibit A.

893.01/12-149 : Telegram

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

ROME, December 1, 1949—2 p. m.
 [Received December 1—9:05 a. m.]

3906. Embtel 3460, October 29. Director General [of] Political Affairs informed us Foreign Office has instructed Italian Embassy, Washington, to consult with Department on question recognition Communist regime in China. He states that Foreign Office is now convinced after conversations with British that latter intends to recognize without further delay and have been successful in persuading other Western European governments, such as Netherlands, to take similar action. Italians also believe that French recognition of Communist government not far away.

Guidotti stated Italian Government felt that its recognition of Chinese Communist government might not be unwelcome from US point of view in view of action now to be taken by other European governments. He pointed out that Italy, as a nation without substantial economic or political interests in China, might be useful to US if they established relations with Communist government. He also stated nonrecognition on part of Italian Government would be most difficult to defend against attack from opposition within Italy and in Parliament, since it would not be logical with policy towards Communist government of Soviet Union, nor would it have support of similar action by other Western European governments.

DUNN

893.01/12-149 : Telegram

The Minister in Switzerland (Vincent) to the Secretary of State

BERN, December 1, 1949—5 p. m.
 [Received December 1—2:30 p. m.]

1822. Explaining Federal Council's communiqué re Swiss policy on recognition Red China (Legtel 1812, November 30⁵⁴), Cuttat⁵⁵ of Foreign Office today told Hughes⁵⁶ that Swiss policy would undoubtedly follow pattern of Israel recognition, that is, Switzerland would wait until a substantial number of countries had already recognized Communist China. Cuttat said that Switzerland would then probably join with the majority. He added that it is Swiss policy in

⁵⁴ Not printed.⁵⁵ Jacques A. Cuttat, Chief of the Western Section of the Division of Political Affairs of the Swiss Ministry for Foreign Affairs.⁵⁶ Morris N. Hughes, Counselor of Legation in Switzerland.

cases of this kind not to be conspicuous among the first or among the last to recognize but that when the weight of world opinion was for recognizing Switzerland would follow along. He could not say how many nations or what type of nations would constitute prerequisite for Swiss recognition but thought that "certainly more than half" would be necessary.

VINCENT

893.01/12-249 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 2, 1949—8 a. m.

[Received December 2—4 :25 a. m.]

1489. 1. During conversation with Bajpai on December 1 he referred to telegram which GOI had sent to Madame Pandit stating its position re Chinese recognition and instructing matter be discussed with State Department (see Embtel 1439, November 21⁵⁷). He said no indication as yet received of US reaction.

2. Bajpai added that similar telegrams sent simultaneously various members of Commonwealth and Burma. UK was anxious for early recognition, Pakistan agreed to early recognition in principle but planned to send more complete statement of policy, Ceylon agreed with India's position and also prepared to recognize; Australia had replied not prepared state its policy until after elections since it was only caretaker government; although New Zealand had not replied thus far, it was believed reply would be negative. Burma was so anxious to recognize that GOI had difficulty in persuading it to wait until latter part of month. He did not mention Canada.

3. I asked Bajpai re GOI's communication to Chinese Communist Government re Ward arrest. He said instructions reached Indian representative China just as Ward was released and that representative instead of delivering message asked Delhi for further instructions. He has now been instructed to deliver message regardless release in order to impress on Chinese Communists seriousness of arrest of diplomatic or consular officials. No confirmation yet received that Indian representative had delivered message. I considered it inopportune to press for details re substance of message. Plan to do so when informed that message has been delivered.

HENDERSON

⁵⁷ Not printed.

893.01/12-249 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, December 2, 1949—5 p. m.

[Received December 2—5:07 a. m.]

2729. Controlled American source has learned (Embtel 2676, November 28⁵⁸) from informant cited reftel that *ad hoc* Philippine Government Committee studying question Philippine Government recognition Chinese Communist regime held second meeting November 29. Informant stated committee unanimously agreed Mao Tse-tung under domination Moscow and proceeded discuss question possible economic advantages which might flow to Philippines from recognition. He said Foreign Office Counselor Constantino and Manual Adea, formerly First Secretary and Consul General Nanking, held Philippines would benefit from trade with China, volume which might be expected to be greater if recognition accorded. However, Col. Gabriel⁵⁹ argued their advantage would be offset by increased remittances from Chinese this country to homeland which similarly would be facilitated by conditions attending diplomatic recognition and intercourse. Informant expressed view committee would favor withholding recognition at least until accorded by US.

COWEN

893.01/12-149 : Telegram

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

WASHINGTON, December 2, 1949—7 p. m.

3082. Urtel 3906 Dec 1. You shld inform Director General Polit Affairs that US attitude toward recognition by friendly countries remains that previously expressed (see Depcirtel Oct 12, 7 p. m. [11 a. m.]⁶⁰) as follows:

Announcement of establishment Chi Commie "Govt" long anticipated development and does not in US view lend any special urgency to consideration question recog by non-Commie countries. Development does however point up necessity interested friendly govts, in their own interests, maintain common attitude respecting question. To this end US Govt emphasizes need for full exchange views prior

⁵⁸ Not printed.⁵⁹ Augustin G. Gabriel, Head of the Philippine National Investigation and Coordinating Agency (NICA).⁶⁰ *Ante*, p. 122.

any definitive or independent steps looking toward recog by other interested friendly govts.

ACHESON

893.01/12-349 : Telegram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, December 3, 1949—10 a. m.

[Received December 3—5:11 a. m.]

1025. 1. Confidentially informed late last night by Foreign Minister that he advised by British latter intend recognize Chinese Communist government about middle this month. He said understood Indian and Burmese Governments would extend recognition about the same time.

2. He said he thought British recognition of Chinese Communists at this time would not alter decision taken by Thailand Government withholding recognition as long as possible although such action would greatly intensify pressure on Thailand. Nevertheless he and most members Cabinet feel avoidance recognition of Communists by Thailand Government for as long as possible highly desirable since presence Communist diplomatic and consular representatives would mean intensification Communist activities in Thailand. In reply my query attitude Parliament, he said some questions asked yesterday's session to which he replied by explaining technicalities involved in recognition. He said when British recognition officially announced he would no doubt have to make more detailed statement to Parliament.

3. He inquired US Government's position regarding recognition Chinese Communists. I said on basis statements recently made by Secretary State, we not contemplating immediate recognition. Speaking personally, I did not believe we could possibly recognize Chinese Communists in the very near future for the following reasons:

(1) Absence of any definite assurance or public announcement by Communist leaders indicating respect for treaty rights and international obligations;

(2) Continuing mistreatment of American citizens and consular officers by the Communists;

(3) Continuing and openly-expressed hostility both by Communist press and leaders toward the US.

Sent Department 1025; repeated New Delhi 28, Rangoon 48. Department pass London unnumbered.

STANTON

893.01/12-349 : Telegram

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

PARIS, December 3, 1949—1 p. m.

[Received December 3—11:18 a. m.]

5110. Baeyens has just telephoned to say Massigli has heard that British Cabinet will "pronounce itself" on principle and timing of Chinese Communist recognition week beginning December 12. French Embassy Washington instructed request our views. Baeyens feels this timing leaves narrow margin for consultation.

Sent Department 5110, repeated London 894.

BRUCE

893.01/12-549

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 5, 1949.

Subject: Reply to Note from Indian Embassy on Question of Recognition of Chinese Communist Regime

With reference to the attached note of November 21, 1949,⁶¹ handed to the Acting Secretary by Madame Pandit on November 22, it is suggested that the reply be made to her orally when she calls at her request to see you on December 6 at 3:45 P. M.⁶²

We suggest that the following comments would be pertinent for use in your discussion:

1. You have now given careful consideration to the points raised in the Indian note.

2. While recognizing the considerable military successes of the Communist forces, the fact is that there are portions of territory and population of China under the control of a friendly government which the United States Government recognizes and which continues to oppose the Communist drive in Asia.

✓3. We do not consider that delay in recognition would have a significant or lasting effect upon the feeling of the Chinese people generally toward foreigners; on the contrary that hasty recognition by individual powers might well prove an illusory benefit, particularly in view of the gross mistreatment of Consul General Ward and other foreign nationals in the areas which the Chinese Communists have taken over.

⁶¹ Not printed, but see footnote 32, p. 196.

⁶² No memorandum of conversation found in Department of State files.

4. While the effect on trade and commerce of recognition is indeed worthy of serious consideration, this question should be handled in the light of the total national interest, having in mind at the same time the nature of the safeguards foreign property interests will have under the new regime.

5. In our view recognition within the near future by any of the leading democratic powers would have undesirable repercussions in the internal situation of countries of Southeast Asia because of the indication given of a break in the democratic ranks and of the aid and comfort given to local Communist movements. The elements of these populations which are in sympathy with the new regime are, in our view, not likely to be made less bold by the granting of recognition by the principal powers. The attempts of these elements to foment trouble are likely to be highly aggressive regardless of the matter of recognition. The reaction in the independent countries of Southeast Asia would be most important. As to the attitude of Burma, our information is that Burma is not anxious to give immediate recognition.⁶³

6. In considering the question of assumption of international obligations by the new regime, we have searched for some indication that it is prepared to respect at least the minimum standards of international conduct and to assume the responsibility of a government in the treatment of foreign nationals and their interests. While there have been fewer instances of indignities suffered by other foreign nationals, it may well be that the Chinese Communists may later mete out to them similar treatment and that, indeed, the present apparently dissimilar attitude toward foreign nationals is itself only a phase of Chinese Communist tactics. It is agreed that promises or commitments may not necessarily have meaning; actions are what count. Unless the regime appeared inclined to respect some standard of public decency and humanity, relations, after recognition, might prove to be intolerable.

7. Therefore, while appreciating the Indian Government's position and in the understanding that it will, of course, follow the line of action which it deems best, this Government does not believe that the time is propitious to give active consideration to recognition. We hope that the Ambassador and her Government will continue to afford this Government the opportunity for any further exchange of views upon this subject which may be deemed desirable.

⁶³ Marginal notation on copy of memorandum in the files of the Office of Chinese Affairs: "This erroneous report came from Burmese Mission. Not used by Sec'y."

893.01/12-549 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 5, 1949—6 p. m.

[Received 8:28 p. m.]

4836. Re Bangkok's 1025 to Department,⁶⁴ repeated New Delhi, Rangoon, London, and Paris 5110 to Department,⁶⁵ repeated London.

Scarlett [of] Foreign Office states position paper on recognition Communists will be submitted formally to Cabinet December 15. Hitherto position has been British should recognize as soon as decently possible after consultation other friendly governments. Now Cabinet will be asked to decide (1) having consulted friendly governments do British recognize and (2) if so what will be appropriate timing? Any decision reached will be communicated US and other friendly governments before public announcement is made. (Bangkok please inform New Delhi, Rangoon.)

Sent Department 4836, repeated Paris 963, Department pass Bangkok 10.

HOLMES

893.01/12-649

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 6, 1949—10 p. m.

[Received December 7—4:31 a. m.]

1518. 1. During final talk with Bajpai today before his departure on 8th for New York, he touched briefly again on China. He said that GOI had not yet received indication of US reaction to India's statement of position regarding Chinese recognition (Embtel 1489, December 2). He hoped that US would understand that in recognizing China, GOI was not undertaking to "flirt" with Chinese Communists or, for that matter, with Soviet or any other Communists. GOI fully recognized Communist danger and had no illusion regarding present tie-up between Communist China and Communist Russia. GOI, however, would be in embarrassing position if Burma and other Asian powers should recognize Communist China while India held back. Furthermore, if GOI should wait until after UK recognition it would be charged internally with following in UK's footsteps rather than having foreign policy of its own.

⁶⁴ December 3, 10 a. m., p. 212.⁶⁵ December 3, 1 p. m., p. 213.

2. Bajpai said that although GOI was continuing formally its present policy of neutrality between two power blocs, it was in practice making more and more decisions "based on merit" in harmony with Western policy, particularly US policy, rather than with Soviet policy. Illustration of GOI's determination not to appease Chinese Communists was its decision to make representation regarding Ward regardless fact that Ward had been released (paragraph 3 Embtel 1489). In fact GOI had made representation whereas UK had failed to do so.

3. In response my query, he showed me copy of note handed to Chinese Communist government. This note recited facts relating to case of Ward and Stokes⁶⁶ as received from US Government and closed with following statement: "The Government of India wishes to express their concern over the facts disclosed by the Government of the US, since they constitute a departure from diplomatic usage."

HENDERSON

893.01/12-749 : Telegram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, December 7, 1949—4 p. m.
[Received December 7—8:32 a. m.]

1038. Re Saigon's 422,⁶⁷ might suggest Department once again point out to British hasty recognition Chinese Communist government as apparently contemplated by them will hasten Communist domination Siam and indeed strengthen Communists' influence and increase prestige Commie government throughout SEA.

Sent Department 1038, repeated Singapore 55, airmailed Saigon.

STANTON

893.01/12-749

Memorandum of Conversation, by the Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] December 7, 1949.

Mr. Collins called today and referred to the Indian note to the Canadian Government, similar to that sent to this Government,⁶⁸ indicating an intention to extend recognition to the Chinese Communists during the latter part of December. Mr. Collins stated that the Canadian Government had now replied to the Indian Government, presumably in Ottawa, expressing appreciation to the Indian Government

⁶⁶ William N. Stokes, Vice Consul at Mukden.

⁶⁷ December 5, not printed.

⁶⁸ Not printed, but see footnote 32, p. 196.

for informing the Canadian Government of the former's thinking on this question. The Canadian Government in its reply stated, however, that it wished to re-examine the whole question of China in the light of the discussions among the Commonwealth countries to be held in January at Colombo, and that in all probability Canada would take no action with regard to recognition of the Chinese Communists prior to that time.

I thanked Mr. Collins for this information and indicated that the Department would appreciate receiving any further thoughts which the Canadian Government might have on this question.

893.01/12-749 : Telegram

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

ROME, December 7, 1949—8 p. m.

[Received December 7—5:46 p. m.]

3991. We informed Director General [of] Political Affairs substance Deptel 3082, December 2. He stated that Italian Government was being pressed by British Ambassador here for definitive reply to British memorandum of November 1.⁶⁹ He understood that Portugal had now made up its mind to join with British in recognition along with other countries and that French would not be far behind. He said Government felt it could not postpone replying to British any longer, and was considering a communication which would point out that if UK decided on recognition, Italian Government would have to review its present position. He said Foreign Office did not want Italy to be last Western European country to recognize Communist regime, thus exposing it to further attack by Communists and extreme right for subservience to wishes of US against what seemed to be recognition to protect Italian interests which, while not as important as British, were of importance and included some 1,000 missionaries. In reply to our inquiry whether Vatican was in favor of recognizing regime, he stated that Foreign Office had heard rumors to this effect, but he did not believe Vatican had actually made a decision (infotel airgram November 30, 7 a. m.⁷⁰).

If UK and other Western European countries proceed with recognition, it would seem that similar action on part Italy foregone conclusion.

DUNN

⁶⁹ *Ante*, p. 151.

⁷⁰ Not printed.

893.01/12-849: Telegram

The Chargé in Burma (Day) to the Secretary of State

RANGOON, December 8, 1949—11 a. m.

[Received December 8—9:27 a. m.]

537. In conversation my call on Foreign Minister Dec. 7, following his return from Lake Success and London Dec. 4, Foreign Minister said expected GOB recognize Communist China before end this month but feared early recognition would help Communist penetration from Yunnan, hoped Communist China would not soon send diplomats Rangoon, desired delay longest sending Burma Ambassador to Communist China.

Conclude GOB likely recognize Communist China immediately after, not before, Britain does despite Foreign Minister's apprehension over disadvantages acting too hastily.

I said I assumed GOB continuing consultation policy and added hoped recognition would await some definite assurance by Communist China of intent respect international obligations protect foreign nationals and property in China.

Sent Department 537, repeated Bangkok 54, London 28.

DAY

893.01/12-849: Telegram

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

ROME, December 8, 1949—1 p. m.

[Received December 8—9:49 a. m.]

4002. Re Embtel 3991, December 7. Netherlands Minister ⁷¹ here has informed me that he does not believe his Government prepared to recognize Chinese Communist regime. This would seem at variance with opinion of Foreign Office. If De Bylandt is correct and Dutch attitude is indicative of policy of other Western European countries, I believe we could successfully dissuade Italian Government from following UK lead in recognizing Communist regime. On other hand, if a number of other countries go along with UK I believe efforts persuade Italian Government against recognition would be futile.

DUNN

⁷¹ Willem F. L. van Bylandt.

893.01/12-849

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 8, 1949.

Participants: Sir Oliver Franks, British Ambassador

The Secretary

Mr. W. Walton Butterworth, Assistant Secretary, FE

The British Ambassador called this morning at my request and I explained to him that I wished to discuss with him the question of recognition of the Chinese Communist regime. He said he was glad that I had sent for him because he also had two or three matters which he wished to raise, particularly, the question of Formosa and the discussions at the Ceylon Conference regarding a possible Japanese Peace Treaty.

[For section of this memorandum concerning Formosa, see page 442.]

I then brought up the question of possible recognition of the Chinese Communist regime indicating that shortly after the receipt of the British note of November 1, I had gone to Paris and met with Mr. Bevin and we had discussed the matter there. I now understood that the British Cabinet was scheduled to consider the question about mid-December and that I wished to review and reiterate the point of view which this Government held on this matter. In the first place, it seemed desirable to us to act if at all possible in concert with other concerned powers to ascertain whether the Chinese Communists intended to live up to their international obligations. It seemed to us that the inclinations of the Chinese Communists were to follow the Russian example of considering themselves not an evolutionary regime which had sprung from the previous one which, therefore, entailed that they assume both the rights and the obligations of the former regime, but a revolutionary one which would seek to assume all the rights and only those obligations they choose to undertake. It was important to know what the real situation was and, if possible, to prevent such a development. Secondly, it was important to have evidence of how they proposed to conduct themselves with respect to the outer world: whether it would be in conformity with international law and usage as a civilized power, or as an uncivilized or semi-civilized entity. Thirdly, we did not believe that hasty recognition would confer any permanent benefits on those who undertook it. Fourthly, as respects the U.S., it was important for us to bring Congress into our deliberations so that, at any rate, the problem would be fully talked out and the issues clarified. Therefore, regardless of

the action taken by other powers, we would not act hastily. I also went on to say that I appreciated that the arrangement had been to consult but that no commitment had been made necessarily to act unitedly, it being recognized that the interests of states differed and that in matters of recognition they would, in the final analysis, be governed by their views of immediate and long term self-interest. I asked Mr. Butterworth if he had anything to add and he called Sir Oliver Franks' attention to the presence in Washington of Mr. Lewisohn* who had been for some twenty years the *London Times* representative in Peiping and had only just arrived here. Mr. Lewisohn had confirmed our own reports that the Communist regime attached great importance to being recognized by some of the Western powers though there were those among the Chinese Communists who were apparently anxious that the U.S. not recognize the regime. Given the fact that Chinese Communists do want recognition by other powers than USSR and its satellites, it would be regrettable that the powers should give up the opportunity of thus bringing pressure to bear for recognition of existing obligations. The British Ambassador said he appreciated these considerations and also the fact that if the powers were not going to act as a unit, it would be undesirable for those who were recognizing to act as a concerted body. He also wanted it understood that the British Cabinet was not merely going to consider the question in mid-December but as he understood it would probably make a decision which might well be to recognize before the year was out. I said that if this decision were taken, I hoped that we would at least be given as much advance notice as possible so as to minimize the effects that misunderstanding might well create and cause repercussions on other Anglo-American concerns. He agreed to ensure that this would happen.

[Here follows discussion of Japanese peace treaty and a military assistance agreement.]

893.01/12-949 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 9, 1949—2 p. m.

[Received December 9—10:55 a. m.]

4898. Reference Embtel 4836, December 5, repeated Bangkok, 10. According Scarlett, Foreign Office position paper re recognition Communists submitted as planned but no final decision will be reached

*Mr. Lewisohn in a talk in FE had been critical of British policy and in accord with U.S. attitude towards recognition. [Footnote in the source text.]

until after return Bevin December 12. Scarlett did not reveal what action if any taken by Cabinet.

Sent Department 4898, repeated Bangkok 11.

HOLMES

893.01/12-1049 : Telegram

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

ROME, December 10, 1949—6 p. m.

[Received 6:19 p. m.]

4041. ReEmbtel 3991, December 7. Informed [that] Foreign Office has replied to British memorandum that, while they agree with British reasoning, they consider unity among Western democracies on issue of recognition more important. We have been promised text of reply and shall forward it as soon as received.

DUNN

893.01/12-1149 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 11, 1949—9 a. m.

[Received December 11—11:13 a. m.]

1541. During conversation which I had on December 10 with K.P.S. Menon, Secretary of Ministry External Affairs, who in absence Bajpai is in charge of Ministry, told me following re recognition Communist China.

1. GOI had received message from Madame Pandit describing position of US Government re recognition Communist China. GOI appreciated views and position US but felt in view India's geographic position and Asian interests GOI must carry out its program for recognition. Recognition probably would not take place, however, before last week December or first week January.

2. Although GOI would act regardless decision other members Commonwealth, it still hoped to receive replies from all before taking action. Canada favored recognition but deferred pending decision France, Australia and other friendly powers. UK also favored early recognition but as yet had made no definite decision re time and conditions. No reply from New Zealand and no definite answer from Pakistan.

3. Burma was pressing hard for immediate recognition. Burmese Ambassador stated several days ago his Government wished to recognize on December 11 or shortly thereafter. Ambassador was informed that GOI did not wish unduly to influence GOB but hoped GOB could wait until other Asian Powers could take action with dignity and in general agreement.

4. In response my question he said GOI would not await Commonwealth conference in Ceylon since it did not wish impression to be obtained that Commonwealth was dictating political decisions of international nature.

5. GOI had promised Chinese Ambassador here that it would give him 10 days' notice before extending recognition so he would have opportunity in quiet way to wind up affairs and get out.

I told him it was to be regretted that GOI found it necessary to move ahead so fast. I was convinced from my experience in dealing with Communist-controlled governments that they did not really appreciate gracious or friendly gestures but they did understand and respect, in spite of loud protests, displays of firmness. Undoubtedly the Chinese Communists would welcome lack of unity among democratic powers in dealing with them and would endeavor to exploit this lack to their advantage and to the disadvantage of democratic world.

Menon said GOI recognized this fact. It hoped that differences in our approach to Communist China would not lead to mutual embarrassment.

Sent Department; repeated Rangoon 31.

HENDERSON

893.01/12-1249: Telegram

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

[Extract]

ROME, December 12, 1949—6 p. m.

[Received December 12—2:39 p. m.]

4056. ReEmbtel 4041, December 10. Italian Government reply December 7 to British *pro memoria* agrees with British evaluation of present political and military situation in China . . .

DUNN

893.01/12-1649: Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Officers*⁷²

WASHINGTON, December 16, 1949—3 a. m.

Since survey of opinion re question recog Chi Commie regime initiated by Top Secret Depcirtel Aug. 19 5 a. m., situation has developed to point where now appears India may recog before end Dec. UK

⁷² Sent to Batavia, Bangkok, Karachi, Manila, New Delhi, Rangoon, Saigon, and Singapore.

and Burma may recog simultaneously or shortly thereafter to be followed by majority other countries throughout world with interests in China, excepting Philippines, Republic of Korea and possibly Italy.

Under these circumstances Dept desires ur estimate of effect on opinion in country and/or Govt to which you accredited if (1) US shld join in early recog, (2) US shld delay recog until great majority other countries have recognized, (3) US shld indefinitely withhold recog.

ACHESON

893.01/12-1649

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Hare)

[WASHINGTON,] December 16, 1949.

The First Secretary of the Burmese Embassy called on the Officer in Charge of Burma-Ceylon Affairs late yesterday afternoon under instructions to inform the Department that his Government had concluded that, in view of recent developments in Yunnan Province, it must act immediately to extend recognition to the Chinese Communist regime. The Embassy representative had no information as to the exact timing of his Government's move, but the tenor of his instructions was such that Burmese recognition will probably be forthcoming within the next few days.⁷³

893.01/12-1649 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 16, 1949—1 p. m.
[Received December 16—10:58 a. m.]

4994. Embtel 4836, December 5. Although Cabinet met yesterday and assumably considered recognition Chinese Communists, informal inquiries various levels Foreign Office have so far failed to elicit any information re Cabinet decision.

Reliable American correspondent informs Embassy his inquiry Attlee's⁷⁴ secretary last night resulted in guarded statement Cabinet decision definitely in favor recognition and Bevin given discretion as

⁷³ Notation by Aaron S. Brown, of the Executive Secretariat: "December 16, 1949. The Burmese Embassy informed NEA this afternoon that Burma has recognized the Chinese Communist regime."

⁷⁴ Clement R. Attlee, British Prime Minister.

to timing. Assumably Foreign Office would wish consult new government[s] Australia and New Zealand before announcing decision.

Information from other press sources indicates apparent imminence Communist attack on Formosa has raised new technical questions, it being realized that Formosa is still legally Japanese territory and UK has certain responsibilities that connection.

HOLMES

893.01/12-1649 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 16, 1949—6 p. m.

[Received December 16—1:41 p. m.]

5004. Reference Embtel 4994, December 16. Scarlett, Foreign Office, has just informed Embassy [that] Cabinet yesterday reached definite decision in principle to recognize the Chinese Communists. Timing of recognition was left to discretion of Bevin who would doubtless wish consult friendly governments prior to making public announcement.

Although Scarlett not participating in drafting, he understands personal message from Bevin to Secretary somewhat to above effect will be telegraphed to British Embassy Washington this evening.

HOLMES

893.01/12-1649

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 16, 1949.

Participants: Mr. Hubert Graves, Counselor, British Embassy
 Mr. Butterworth, Assistant Secretary
 Mr. Sprouse, CA

Mr. Graves called at his request this afternoon and explained that he was doing so, because of the illness of the Ambassador, in order to present a personal message⁷⁵ (a copy of which is attached) from Mr. Bevin to the Secretary regarding the question of recognition of the Chinese Communist regime. He pointed out the message indicated the desire of Mr. Bevin that no publicity be given to the decision of the British Cabinet in this regard until the British Government is ready to notify the Chinese Government and emphasized the desirabil-

⁷⁵ *Infra.*

ity of no publicity in this matter. Mr. Graves also handed Mr. Butterworth an additional brief memorandum (a copy of which is attached ⁷⁶) which indicated that Mr. Bevin would be grateful for a reply from the Secretary and further set forth the British Government's view regarding the position of Formosa.

893.01/12-1649

The British Embassy to the Department of State ⁷⁷

PERSONAL MESSAGE FROM MR. BEVIN TO MR. ACHESON

I want you to know that the Cabinet have now taken a decision in principle to accord *de jure* recognition to the Chinese Communist Government. The actual date of recognition has not yet been fixed, but I am thinking in terms of the 2nd January 1950, though I do not wish to be held to that date. I am anxious that no publicity should be given to our decision until we are ready to notify the Chinese Government.

I also wish you to know that we have deferred a decision on this matter as long as we felt able, but having taken into account all the circumstances and all the views expressed by other Governments, we nevertheless feel we must now proceed to recognition. There are some factors which affect us specially, not only our interests in Hongkong, but the position in Hongkong, and also in Malaya, where there are vast Chinese communities. We feel that continued non-recognition is liable to cause trouble there which we cannot afford to risk, and we have had to bear this in mind.

As you know, we also take the view that to withhold recognition indefinitely is to play straight into the hands of the Soviet Union. We feel that the only counter to Russian influence is that Communist China should have contacts with the West, and that the sooner these contacts are established the better.

Our recognition will merely acknowledge the inescapable fact that the Chinese Communist Government is in effective control in China. This does not in the least lessen our determination to resist communism in South East Asia and elsewhere. What happens in the territories for which we are responsible is very much our business, and we intend to stimulate resistance to communism with all the means at our disposal, and hope like-minded countries will do the same.

While for obvious reasons, we cannot accompany the act of recognition with a statement in public that it does not denote approval of

⁷⁶ Not printed.

⁷⁷ Handed by the Counselor of the British Embassy (Graves) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth) on December 16.

the Chinese Communist Government, this is as you know the fact. All of us after all recognise the Soviet Union and Satellites. We acknowledge the existence of these Governments, though we certainly do not approve of them. And by recognising the Chinese Communist Government we shall be doing no more than acknowledging a fact, as we have done with the Soviet Union and the Satellites.

Such then is the position which I want to put to you frankly. I had hoped that we might be able to take action together in this matter, but if the United States feel unable to accord recognition I shall quite understand the position. As you know, we want to keep in close association with you, but we have to be careful not to lose our grip of the situation in Asia and to take into account the views of our Asian friends.

I am grateful for the views which you expressed to Sir Oliver Franks about this question of recognition on 8th December which I have taken into account in discussion with my colleagues. I am consulting with Commonwealth and other Governments with whom we have been in touch on this question, but it is of course for them to make up their own minds.

WASHINGTON, 16 December, 1949.

893.01/12-1749 : Telegram

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

PARIS, December 17, 1949—2 p. m.
[Received December 17—9:31 a. m.]

5297. Re London's 5002 to Department.⁷⁸ We were shown Bevin message to Schuman re China and Indochina which was delivered Foreign Office this noon. Presumably Embassy London or British Embassy Washington will furnish text which we understand differs from Bevin's message to us. In brief: Message announces UK decision to recognize Chinese Communists, preferably on January 2, and expresses hope this will not embarrass French Government and Bao Dai, especially since UK considering *de facto* recognition latter after Colombo conference if certain conditions fulfilled. Bevin suggests Schuman send Bao Dai message explaining UK position.

[Here follows summary of British conditions for recognition of Bao Dai's government.]

⁷⁸ Not printed; it reported the British Foreign Office indicated Mr. Bevin was informing M. Schuman that recognition of the Peiping regime was being retarded temporarily in hope the French would settle the Vietnam problem to permit prior recognition of Bao Dai (851G.01/12-1649).

Sent Department 5297; repeated London 937; Department pass Saigon 168.

BRUCE

893.01/12-1749: Telegram

The Chargé in Burma (Day) to the Secretary of State

RANGOON, December 17, 1949—7 p. m.

[Received December 17—10:49 a. m.]

f 550. Deputy Secretary Foreign Office has confirmed the Burma Government has extended recognition Communist China as reportedly revealed by Foreign Minister to press in Calcutta.

Sent Department 550, repeated New Delhi 62.

DAY

893.01/12-1949: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 19, 1949—6 p. m.

[Received December 19—2:56 p. m.]

1575. 1. Menon, Secretary in charge External Affairs, sent for me this afternoon in order to inform me in confidence that GOI intends recognize Communist China on December 30. He assumed US Government is already aware UK intends extend recognition January 2.

2. Menon said Nehru had requested him express hope that US Government would not take amiss such early recognition on part GOI. In view its geographical position, GOI felt it could not wait longer to establish relations with the regime controlling so close a neighbor. GOI hoped use its relations prevent Chinese Communists from passing completely Moscow domination.

3. I said that our position re recognition had already been clarified by Secretary of State. We had no desire or intention, however, impose our views on other countries and I was sure that my Government would take position India must make its own decision re matters this kind.

HENDERSON

893.01/12-1949: Telegram

The Consul General at Saigon (Abbott) to the Secretary of State

SAIGON, December 19, 1949—7 p. m.

[Received December 19—8:12 a. m.]

457. Recognition Chinese Communist regime (Depcirtel December 16, 3 a. m.) has been subject endless discussions all political elements

here for many weeks and press has filled columns with editorials, agency despatches and articles from world press. Certain basic ideas are believed to have crystallized in local public opinion:

1. US is fundamentally opposed to recognition, has consistently used its influence to prevent action by UK and other countries, and will only recognize with extreme reluctance when it is clear that these efforts have failed.

2. UK extremely anxious to extend recognition in order protect its commercial interests. This "shopkeeper's["] attitude repeatedly commented on bitterly in right-wing circles and with malicious pleasure by fellow traveling press. This belief plus repeated rumors in recent weeks that UK was on point of recognition is believed to have largely discounted any important effect on public opinion when British recognition finally comes.

3. French will probably follow suit if UK recognizes, certainly if US does. This situation deplored by most although there is appeasement group among both French and Vietnam which hopes recognition will prevent Communist invasion or rather fears refusal to recognize may be used as excuse for invasion.

4. Recognition by US will have following adverse effect on local situation:

a. Ho Chi Minh and supporters will be greatly encouraged and Bao Dai correspondingly discouraged. Argument will be advanced and widely believed that determination to stop further spread Communism only half-hearted and that, if we have accepted Mao Tse-tung, we will eventually accept Ho Chi Minh.

b. French will have to accept Chinese Communist consuls who will promptly organize influential and relatively numerous local Chinese community. This would have serious effect on political and military situation since local Chinese have till now been largely passive.

Viewed from above background, following reply to numbered alternatives paragraph 2 reference telegram.

(1). Most adverse effect. General assumption that we had followed British lead to avoid losing China markets. Considerable loss of face among native elements because of wide publicity given here toward arrest and other Communist insults.

(2). Somewhat less adverse effect, particularly if combined with prior recognition Bao Dai government, firm warning against Chinese direct or indirect aggression and preliminary publicity campaign emphasizing recognition granted for technical and not political reasons and implies no endorsement of Communist regime.

(3). Best solution from Indochina point of view.

ABBOTT

893.01/12-1949 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, December 19, 1949—11 p. m.

[Received December 20—4:03 a. m.]

2859. ReDepcirtel December 16, 3 p. m. [*a. m.*]. I saw Quirino [in] Baguio this afternoon, [and he] expressed desire fullest possible co-operation with US and hope that recognition from US would not be too immediate. Also indicated deepest concern over possibility loss Formosa to Chinese Communist regime and pressed me hard for definite information as to what, if any, aid we are now giving Formosa or propose to give Formosa, or what, if anything, we propose doing toward defense Formosa and more specifically, if any of our forces in Japan, Okinawa, or here either air or navy would be used. Also specifically pressed for information as to whether our Okinawa forces or forces based in Philippines would be used for defense Philippines in event attack on Philippines originating from Formosa or Chinese mainland. He further stated he felt that in view of vulnerable position of Philippines, he felt that it would be an imprudent thing for the Philippines to risk antagonizing Chinese Communist regime by long deferring recognition after recognition by substantial number other powers.

COWEN

893.01/12-2049 : Telegram

The Consul General at Batavia (Beam) to the Secretary of State

BATAVIA, December 20, 1949—10 a. m.

[Received December 20—7:32 a. m.]

1006. Reference Depcirtel December 16, in view (1) Indo[nesia] concern with local Chinese minority, (2) Indo desire maintain good relations Pacific countries and (3) reluctance antagonize Communist block pending Indo UN membership, it is likely RIS⁷⁹ when set up will arrange early recognition Chinese Communist regime, particularly if example furnished by India and UK, especially former. Will report further after talks with influential Indo leaders in which I will stress Soviet attitude in SC and will refer Mao's visit to Moscow. (Contel 1000, December 17⁸⁰). US recognition or non-recognition Chinese would probably have little effect Indo decision. 1) In light

⁷⁹ Republic of Indonesia (United States of Indonesia).

⁸⁰ Not printed.

indignities suffered by US in China and strong US official and public reaction, early US recognition would be construed as capitulation and would be described as such by leftwing elements here. 2) Delayed US recognition awaiting example majority other countries would be better understood if some form assurances could be obtained re protection US national[s] and interests China although resulting difference between US recognition and Philippine and Korean non-recognition policies would be commented on. 3) Indefinite withholding US recognition China would probably evoke little reaction unfavorable or otherwise in foreseeable future.

Sent Department, Department pass The Hague.

BEAM

893.01/12-2049

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 20, 1949.

Mr. Taymans⁸¹ called at his request this morning and explained that he was calling in accordance with the instructions of his Foreign Office to discuss the question of recognition of the Chinese Communist regime. He stated that it was still the opinion of the Belgian Government that there was no need for haste in extending recognition and that it would be desirable for the friendly Western powers to maintain a common front on this question. He said that present indications seem to point to early British recognition, possibly shortly after the first of the year, and that the Belgian Government had to give serious consideration to the action it should take in this regard. He said if the British Government alone extended recognition the Belgian Government would probably not go along and would desire to postpone such action until some unnamed future date. He added, however, that if the other Brussels Pact⁸² Powers, including France, should extend recognition the Belgian Government would almost inevitably have to take similar action, which might be taken jointly with the other nations concerned. He asked for an indication of the Department's views on this question.

I reviewed briefly the Department's views in regard to this question, pointing out that the Department still considered that hasty and premature action toward recognition would be disadvantageous to the interests of this country and the interests of the Western nations in

⁸¹ Roger Taymans, Counselor of the Belgian Embassy.

⁸² Treaty for collaboration in economic, social, and cultural matters and for collective self-defense, signed at Brussels, March 17, 1948; United Nations Treaty Series, vol. XIX, p. 51.

general. I said that at the present time this Government could not even seriously consider the question of recognition so long as the Chinese Communist regime gave no indication of observance of normal standards of international conduct. I reviewed briefly the Ward and Smith-Bender cases, the treatment of our Consulate General at Shanghai in connection with the demands of Chinese ex-Navy employees and the matter of General Soule's exit permit.⁸³ I said that it was realized, of course, that the final decision in this regard must be made by each nation on the basis of its own interests and that we desired to continue consultation on this subject and to be informed of the views of the other friendly Western nations. In reply to Mr. Taymans' direct question whether any indication could be given of when the U.S. Government might recognize the Chinese Communist regime, I said that no such indication could be given. I expressed appreciation of his action in communicating to the Department the views of the Belgian Government and expressed the hope that he would again get in touch with the Department prior to any action which might be taken by the Belgian Government on this question. Mr. Taymans agreed to do so.

893.01/12-2049 : Telegram

The Ambassador in Thailand (Stanton) to the Secretary of State

BANGKOK, December 20, 1949—3 p. m.

[Received December 20—12:55 p. m.]

1074. 1. Most strongly urge United States delay recognition Chinese Communist Government, making recognition contingent upon receipt definite undertakings from Communists fully protect American rights, interests in China, observe existing treaty obligations between the two countries and uphold principles international law, including those set forth in UN Charter⁸⁴ (Depcirctel December 16, 3 a. m.).

2. Foregoing recommendation based on following reasons:

(a) Open and reiterated hostility manifested by Communist leaders and propaganda machine against US.

(b) Callous mistreatment and calculated humiliation US officials in China.

(c) Denouncement recently concluded Sino-American commercial treaty by Communist spokesman as "traitorous" agreement.

(d) Statements of Communist leaders and spokesmen showing carefully planned aggression against Tibet and encouragement and

⁸³ For correspondence on these subjects, see volume VIII.

⁸⁴ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031.

support Communist subversive groups in countries of South and East Asia. These statements together with recent notification by Chou En-lai regarding pursuit, extermination Nationalist troops fleeing into neighboring countries indicate Communist plans for engulfment countries South and East Asia and perhaps India, fully developed. Communist troops have now reached borders Indochina and upon complete occupation Yunnan will be threatening Northern Burma and Thailand.

(e) On basis statements Mao, other Communist leaders, and Mao's present visit Stalin, clear that influence Soviet Government upon Chinese Communist government dominating, exclusive.

3. Recognition by US without even attempting obtain any safeguards will inevitably have following repercussions upon Thailand, other countries having large or influential Chinese minorities:

(a) These countries will be forced also recognize and establish diplomatic relations with Chinese Communist Government. This act will be followed by influx large Chinese Communist diplomatic, consular staffs who can confidently be expected make concentrated effort weld Chinese minorities in these countries into potent pro-Communist weapon which can and will be turned against governments in power. This internal pressure likely coordinated with massing Chinese Communist troops along borders Burma, Thailand, Indochina and threatening invasion. Estimated in case Thailand, 6 months after arrival Communist representatives, this country will be under Communist control.

(b) Thailand Government and people, and peoples of many other countries South East Asia will feel useless attempt resist Communism and therefore desirable come to terms rapidly as possible.

(c) In above contingency our counter-Communist propaganda would be meaningless to them and be largely a waste of time, effort and money. For the same reason other forms of aid would be almost valueless as attempt swing people away from Communism.

4. In view aforementioned grim realities and rapidity and gravity of developments, I very strongly urge US Government forthwith and without waiting for Bangkok Conference, issue official statement on subject recognition.

(a) Declaration to refer open hostility Chinese Communist government to US, mistreatment US officials, failure give assurances re protection American lives and property and observance of treaty, international obligations and aggressive plans Communist government against other countries Asia. Believe declaration should state in view foregoing, US unable recognize Chinese Communist government unless and until positive undertakings given observe treaty and international obligations.

(b) Second part of declaration, after referring aggressive plans enunciated by Communist leaders, should express our strong opposition to any attempt invade other Asian countries or create trouble there and in a further statement of our intention invoke provisions UN Charter against aggressive actions endangering peace.

(c) There should also be included statement indicating our determination give technical and other aid those countries who desire it and who are striving maintain, or still seeking their freedom and independence. This statement must of course be implemented by immediate extension of aid through MAP,⁸⁵ technical assistance and any other feasible means.

(d) I believe a third paragraph should include reference to Formosa and reiteration our commitment return Formosa to China but only when there shall have been established in China a government freely elected by the people.

I believe prior to issuance of foregoing statement that every effort should be made evacuate all American officials and personnel from China in order reduce number Americans who might be held as hostages by Communists and thus avoid grave risks which we run of Communists mistreating Americans and perhaps provoking American people to point where we would be swept into war against Communist China and probably Soviet Russia.

5. In conclusion may I reiterate my conviction that the gravity of the situation and rapid march events, calls for definition with least possible delay of our policy in Far East and South and East Asia. Although it is almost too late to take any effective measures stem Communism, I still believe fairly clear-cut statement by US Government would have heartening and reassuring effect upon free and independent countries this part of world and might at least delay Communist plans engulf rest of Asia. To say and do nothing would permit Communist expansion by default while to extend recognition along with UK and some other countries, would greatly facilitate and expedite the loss of Asia to Communists.

Senior members Embassy staff are in general agreement with foregoing.

STANTON

893.01/12-2049 : Telegram

The Ambassador in the Netherlands (Chapin) to the Secretary of State

THE HAGUE, December 20, 1949—5 p. m.

[Received December 20—2:03 p. m.]

1282. Foreign Office official today said following to us regarding recognition Chinese Communist government:

1. Foreign Office largely concerned with Indo[nesia] aspect recognition Peking. If Indo announces its new statehood to Peking and if Peking should acknowledge, such acknowledgement would amount

⁸⁵ Mutual Assistance Program.

to recognition on both sides. However, if Peking failed to acknowledge Indo's notification, recognition of Peking by Indo would not exist.

2. Foreign Office hopes that Peking will take first step and immediately recognize Indo, as this would constitute indication that Kremlin (which would be notified of Indo statehood by Dutch anyway) did not intend be difficult about Indo and might even permit its admission into UN.

3. Official with whom we talked will try to sell idea to Stikker⁸⁸ and Cabinet that recognition of Peking by Netherlands Government be held up until Peking has recognized Indo.

In conclusion, official remarked that Netherland Government was exploring every way to help Indo politically and obtain her admission into UN.

Sent Department 1282, repeated Batavia 142, Moscow 9, Department pass Moscow, Batavia.

CHAPIN

893.01/12-2049 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, December 20, 1949—7 p. m.

[Received December 20—4 p. m.]

2880. As indicated (Depcirtel December 16, 3 a. m., Embtel 2859, December 19) Embassy's reftel, effect within Philippine Government might be unfortunate were US to join in early recognition Chinese Communist regime; we believe US would lose somewhat in dignity in eyes Philippine public if US recognition were apparently hurried or precipitate and that prestige of communism this area would be enhanced thereby.

Should US delay until majority other countries have extended recognition, we believe both Philippine Government and people would accept US decision also to extend recognition as natural if not inevitable.

Should US indefinitely withhold recognition after Philippines had itself extended it, we believe result would be to increase an uneasy sense on part Philippine Government and people that they were caught between two antagonists.

We would urge that after recognition may be decided upon but some time prior to its announcement Embassy be authorized inform Philippine Government of US intent. We feel Philippine Government in preserving common front with US by postponement recognition has earned right expect this courtesy from US which would

⁸⁸ D. U. Stikker, Netherlands Minister for Foreign Affairs.

enable it announce its decision regarding recognition in advance of US should it wish to do so. If Philippine Government finds itself in position where it feels impelled accord recognition at same time as US or immediately thereafter it would be put in position suggesting absence true independence and it might be less likely cooperate with us when we next feel need Philippine support.

COWEN

893.01/12-2149 : Telegram

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

SHANGHAI, December 21, 1949— 3 p. m.
[Received December 21—5:12 a. m.]

5327. Danish Minister Morch informed me that he expected his Government would recognize Communist regime early January, implying he anticipated Danish recognition would follow immediately that of British. As of possible added interest was Morch's remark that as his Government owned no property in Peiping, he was looking into prospects of acquiring some. Danish businessman recently in Peiping found it would be necessary to purchase as no suitable property for rent; furthermore, impossible buy land inside old diplomatic quarter.

MC CONAUGHY

893.01/12-2149

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, pursuant to instructions, has the honor to transmit to the Secretary the following message from the Minister for Foreign Affairs:⁸⁷

"The General Assembly of the United Nations having in its Fourth Session decided to refer China's appeal against the Soviet Union to the Interim Commission for consideration and report to the next Session of the Assembly,⁸⁸ any Government which chooses to extend recognition to the Communist regime recently set up in Peiping would be prejudging the case and would seriously prejudice the position of the Interim Commission in its effort to implement the Resolution adopted by the General Assembly on December 8th.

"The Communist regime in Peiping is not a free, independent political entity. It is a creation by a foreign Power. It has no spontaneous

⁸⁷ George K. C. Yeh.

⁸⁸ For correspondence on this subject, see volume I.

support of the Chinese people, whose national character and traditional culture are basically opposed to the Communist ideology.

"In international law it lacks all the attributes of a sovereign state. Any recognition accorded to it constitutes a violation of the principles of the United Nations' Charter.

"At a time when the whole democratic world is struggling to arrest the advance of totalitarianism, any such recognition would inevitably further the cause of international communism, for the consequences of which democracy will one day have to pay dearly."

WASHINGTON, December 21, 1949.

893.01/12-2149 : Telegram

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

ROME, December 21, 1949—10 p. m.

[Received 10:37 p. m.]

4181. We have been given by Foreign Office (Embtel 4056, December 12) copy letter to British Ambassador, Rome, from Secretary General Foreign Office Zoppi which reads in translation :

"Your letter 17 kindly informed me intention British Government to proceed to *de jure* recognition of popular Communist government (*sic*) adding that date selected would be January 2 if other governments agreed on that date.

Italian Government has impression that basis of mutual understanding among interested powers not yet reached. It also does not believe it possible, in such brief lapse of time, to overcome difference of views which still exist on question and arrive at common line of action hoped for in our reply to British memo of November 2.

In view foregoing, Italian Government does not for present believe it is in position to give more satisfactory reply, at same time giving assurance that will not fail keep British Government informed its decisions as soon as this will be possible."

DUNN

751.51G/12-2249 : Telegram

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

PARIS, December 22, 1949—noon.

[Received December 22—8:14 a. m.]

5366. Baeyens read us this morning text Schuman's reply to Bevin message summarized Embtel 5297.⁸⁹ Message will be delivered by Massigli this afternoon. It has been repeated to Bonnet⁹⁰ with in-

⁸⁹ December 17, 2 p. m., p. 226.

⁹⁰ Henri Bonnet, French Ambassador in the United States.

structions enlist US support in influencing British postpone recognition Mao Tse-tung until Bao Dai can simultaneously be recognized.

Summary Schuman message to Bevin follows (Begin summary) :

French Government appreciates reasons advanced by British Government for early recognition Peking regime and consideration with which UK has examined possible impact this recognition on French problem Indochina and success Bao Dai regime.

[Here follows discussion of Vietnam situation.]

Schuman then goes on urge Bevin to delay his recognition of Peking regime until after he can recognize Bao Dai. In addition, other considerations already made known British Government, he points to new element introduced by Mao Tse-tung visit Moscow and emphasizes his great apprehension that this visit with its proclamations of Sino-Soviet solidarity if immediately followed by UK recognition Mao Tse-tung regime before such recognition of Bao Dai Government would have effect of severely weakening spirit of resistance to communism throughout Southeast Asia. (End summary).

Sent Department 5366, repeated London 947. Department pass Saigon 170.

BRUCE

893.00/12-2249 : Telegram

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

PARIS, December 22, 1949—1 p. m.
[Received December 22—8:14 a. m.]

5367. Re my immediately preceding telegram, Baeyens said French Government was without information re US reaction Bevin message to Secretary re Chinese recognition, delivered simultaneously message to Schuman. He expressed hope French Government would be kept informed either through us here or French Embassy Washington.

Sent Department 5367, repeated London 948.

BRUCE

893.01/12-2249 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 22, 1949—6 p. m.
[Received December 22—3:12 p. m.]

5080. In routine off-record conference in Prime Minister's office yesterday, Philip Jordan, advisor on Public Relations, is reliably reported to have announced that recognition of Communist China would

definitely take place on last day in December or first few days in January. He said other Commonwealth Governments had been consulted with regard to timing and that only Australia had yet to be heard from.

Regarding the Colombo Conference, Jordan stated that chief item of now firmed-up agenda was form and scope of a Japanese peace treaty, other items to include Commonwealth countries' dollar requirements for next 12 months and "question of sterling balances". (He did not elaborate on this last item.)

HOLMES

893.01/12-2249 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 22, 1949—7 p. m.
[Received December 22—4:11 p. m.]

5088. Counselor Chinese Embassy has confirmed press rumors he delivered this afternoon a note to Foreign Office containing caution that any nation recognizing Chinese Communists was helping to wreck the UN. Representations were apparently as described in UP story of December 20 with Taipei dateline. Counselor stated similar notes being delivered other Western European capitals. He was unable to state whether similar note being delivered Washington.

HOLMES

893.01/12-2249

*Memorandum of Conversation, by the Ambassador in Thailand (Stanton)*⁹¹

BANGKOK, December 22, 1949.

Mr. MacDonald,⁹² who is on a three day visit to Bangkok, said yesterday that in the course of his conversations with the Prime Minister and the Foreign Minister,⁹³ they had both brought up the subject of impending recognition by the UK of the Chinese Communist Government. He said that he and the British Ambassador, Sir Godfrey Thompson, had indicated to Phibun⁹⁴ their personal belief that the

⁹¹ Copy received in the Department January 2, 1950.

⁹² Malcolm MacDonald, British High Commissioner in Southeast Asia.

⁹³ Field Marshal Luang Pibul Songgram and Pote Sarasin, respectively.

⁹⁴ Pibul Songgram, the Prime Minister.

Thai Government should make its own decision with respect to the problem of recognition.

I had a rather lengthy discussion with Mr. MacDonald on the subject of recognition and outlined my views, emphasizing the gravity of such a step for Thailand and pointing out that the exchange of consular and diplomatic representatives would have the most serious consequences in **this country**. MacDonald agreed with the latter view and pointed out if Thailand and Burma were absorbed by the Communists, Malaya's source of food stuffs might well be lost. At this point I asked him whether the **British** authorities had given thought to the complications likely to grow out of a policy of killing Communists in Malaya and shaking hands with them in China in order to trade and protect British interests in that country. I said it seemed likely to me the Communist Government in China would seek to pressure them to cease the campaign against the Communists in Malaya and that if they refused, retaliatory action would be taken against British subjects and interests in China. MacDonald replied this particular point had not previously occurred to him but one could only hope the Chinese Communist Government would follow a wiser policy.

I said from my conversations with the Thai, in Government and other circles, that early UK recognition of the Chinese Communist Government would be greeted with dismay and cause many Thai to feel that it was useless to attempt to stand against the Communists and therefore it would be better to come to terms with them as soon as possible. I pointed out the UK and U.S. had tried in various ways to impress upon the Thai the necessity for "holding the line" against Communism, and that they would inevitably regard UK recognition as a serious and substantial breach in that line. MacDonald said he fully realized the seriousness of the problem for the Thai but reiterated the British view that their great interest in China necessitated recognition and furthermore that without recognition and contact with the Chinese Communists, there would be no hope of weaning them away from Moscow.

I told MacDonald that for the reasons I had outlined I was personally opposed to recognition of the Chinese Communists and felt in the case of our own Government that we should insist on definite assurances regarding protection of American rights and interests, the observance of treaty rights and international obligations. I said without some such assurances I did not see on what basis diplomatic relations could be firmly established. MacDonald replied that they would have to depend upon "world opinion".

E[DWIN] F. S[TANTON]

893.01/12-2349: Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 23, 1949—6 p. m.

[Received December 23—5:16 p. m.]

5110. At Foreign Office this afternoon Dening⁹⁵ stated that British formula for recognition Chinese Communists included simultaneous withdrawal *de jure* recognition National Government but expressing desire keep Consul in Formosa in *de facto* relationship with local authorities. He said Chinese Ambassador [in] London had been so informed December 19.

Dening said that during call Foreign Office yesterday evening French Ambassador had handed Bevin note from Schuman urging delay in recognition of Communists until after recognition Bao Dai. (Apparently note summarized in Paris 5366 to Department December 22.) Bevin reportedly told Massigli he would consider French request but pointed out that as British had brought urgently to French attention some six times since agreement of March 8⁹⁶ had been signed (he proceeded to enumerate them) necessity for early implementation this agreement, he saw no basis for French indignation at British precipitousness re China. Dening further reported Bevin this morning had decided to delay recognition until January 6 and that telegrams to this effect would be sent Washington and Paris later this evening. This decision assumably would be final due departure Bevin for Colombo December 27. Dening said Foreign Office had noted absence of reply from Secretary to Bevin's note of December 16 one [on?] recognition. He mentioned in passing that India would recognize Communists December 30, and said Canadians were "naughty" in giving to press prior to communication to Foreign Office their decision delay recognition until after conclusion Colombo Conference (Embtel 5095, December 23, penultimate paragraph⁹⁷).

After Dening's departure Scott⁹⁸ stated that next week question will be put to Attlee whether by that time there is sufficient evidence of transfer of power to Bao Dai to warrant confidential statement to French prior to recognition Communists that British plans grant *de facto* recognition Vietnam as associated state in French union. If

⁹⁵ Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs (Far East).

⁹⁶ France and the former Emperor Bao Dai of Annam reached agreement on the future status of French Indochina.

⁹⁷ Not printed; it summarized British press reports on the question of recognition, with particular reference to the *Manchester Guardian*.

⁹⁸ Robert H. Scott, Head of the South-East Asia Department of the British Foreign Office.

so statement would be made and other Commonwealth countries would be asked at Colombo to join British in public statement to that effect. Scott had no confidence on getting other Commonwealth governments to agree, however. Formula would be for announcement of *de facto* recognition Bao Dai immediately after conference and simultaneous elevation of British Consul General [at] Saigon to rank of Minister but without actually establishing Legation there. Scott said Foreign Office would much appreciate knowing what Department has in mind.

By way of explanation British position vis-à-vis French, Scott said Pakistan has requested question recognition Vietnam be discussed at Colombo and therefore British could not make public statement before then. He feels convinced confidential statement will not satisfy French who want public declaration for internal political use in presentation law for implementation March 8 agreements.

Sent Department 5110, repeated Paris 1047.

HOLMES

893.01/12-1649 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, December 23, 1949—10 p. m.

4592. Pls transmit fol personal msg from Secy to Mr. Bevin :

"I am grateful for the frank expression of your views on the question of according recognition to the Chi Commie regime as contained in ur msg to me which was transmitted by the Brit Emb on December 16, 1949. Of course, I am sorry that ur Govt has decided to recognize the Chi Commies, as I, too, had hoped that we might follow a common course of action in this matter.

"I have little to add in the nature of comment to the views which I previously expressed to you in Washington and Paris and more recently to Sir Oliver Franks. It may be that when ur Govt recognizes the Chi Commies, we may feel it desirable to make a statement stating the reasons why we for our part think it unwise to do so. But that is not decided.

"I hope that although we are adopting different courses in this instance our two Govts can follow a common course in all other important matters of mutual concern in the Far East. This will be important if we are to stimulate the free peoples of that area into adopting effective measures of resistance to the spread of Communism.

"Apart from the pros and cons of the general situation, I have been impressed with the representations which we understand the

French have just made to you regarding the effect of recognition of the Chinese Communists upon the problem of Vietnam and also by the fact that they have set themselves a timetable for Assembly ratification of the Mar 8 Agreements. I know that you attach great importance, as I do, to the situation in Indochina and in view of the proposed French course of action, I know that you will understand why I bring this aspect of the matter once more to your attention in relation to the timing of your proposed action."

ACHESON

893.01/12-2449

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sproue)

[WASHINGTON,] December 24, 1949.

Mr. Ford⁹⁹ called at the Department this afternoon to inform me of his Embassy's receipt of a telegram from Mr. Bevin, the substance of which he described as follows:

Please tell Mr. Acheson that I have decided after very careful consideration to notify the Chinese Communist Government on January 6 of our decision to accord *de jure* recognition. I intend to appoint Mr. Hutchison¹ (the officer now in charge of the British Embassy at Nanking) as Chargé d'Affaires pending the appointment of an Ambassador. The Chinese Ambassador in London will be informed on the same day of the withdrawal of *de jure* recognition from the National Government and he will be told that he will no longer be recognized as Ambassador. As regards Formosa, the Chinese Ambassador in London will be informed that in accordance with our practice the British Consul there will continue to maintain *de facto* relations with the local authorities.

Mr. Ford stated that the telegram indicated that no publicity would be given to this decision until the date of notification and that a proposed formula for recognition would be communicated to the Embassy in a later telegram. I told Mr. Ford that a telegram had been sent to our Embassy in London last night containing a message from the Secretary to Mr. Bevin² and asked whether the British telegram gave any indication of Mr. Bevin's receipt of this message prior to the despatch of the British telegram. Mr. Ford said that it did not give any such indication.

⁹⁹ J. F. Ford, First Secretary of the British Embassy.

¹ John C. Hutchison, British Minister (Commercial) in China.

² See *supra*.

893.01/12-2449 : Telegram

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

PEIPING, December 24, 1949—9 a. m.

[Received December 27—12:38 p. m.]

2350. Having reference particularly situation treated Contel 2341, December 23³ (reContels 1710, October 8 and 1822, October 25), note particularly Burma recognition and reputedly impending recognition by British Commonwealth, Indian and Netherlands Governments of Peiping regime. Against this background would now stress desirability remaining in field to permit exploitation political situation for American benefit.

Note here particularly hypothesis contained Contel December 23 that situation may now have reached stage where greater exploitation by non-Soviet states has become possible. It is basic that we can hardly exploit situation without being on ground. It seems to me probable that if American Government takes, with or without participation Congress, position that recognition is definitely not to be extended, Communists will in due course call halt to even present limited functioning Consulates and possibly call for their closure and our departure from China. This would be, as have other Communist actions in past, without regard to international law and practice but would be effective nevertheless. Such action would leave us both without representation and power act on behalf American interests since action British channels could hardly be expected bear same fruits as possible through our own action. Italian Consul has twice argued that American interests would be best served by recognition giving us possibility contesting USSR in China or field where nonrecognition removes that possibility. It would seem axiomatic that if Communists are to turn an about-face or partially from USSR they must have somewhere to turn. Recognition British Commonwealth and other states would offer them limited but not full opportunity. This is critical period in Chinese development. It would seem best USA be present in fullest force possible in circumstances. Reiterate this would not be "support" Communist regime China in any greater degree than Communist regimes USSR and elsewhere; in fact we should avoid particularly material support for so long as Communists follow Moscow patterns, but divorce from scene seems without promise or profit.

Any contention Communists not in effective control China could hardly now be substantiated. Regarding question Communist will-

³ Vol. VIII, "Political and military situation in China", chapter VIII.

ingness abide by international obligations and practice, matter is as doubtful as in cases Hungary, Poland and other satellite states but probably more so, especially in view urgent pressing needs. There remains still possibility exploring field by discussion with Communist authorities, which exploration still untried. At such time (which I should propose be no later than soon after return Ambassador Jessup to Washington) as such queries might be undertaken then would best be attempted by direct consultation with Foreign Minister Chou, without, of course, matter being given advance publicity. Interview might be possible now [that] Communists assured Ward detention could hardly be subject.⁴ Consultation might, of course, in event prove fruitless and due note is taken fact that British think it pointless and will presumably act accordingly. But if point is to be made in respect matter recognition, believe it is only logical and even proper that some attempt be made discover Communist attitude this regard.

Van Putten⁵ earlier had rumor that Communists had fixed end December as deadline for American recognition.⁶ Believe this, if true, reflected earlier more optimistic Communist estimate of their attractions, but hazard own estimate that if other governments extend recognition January-February, we could not prudently plan on being able continue Consular functions without recognition after about May 1 next.

CLUBB

893.01/12-2749

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 27, 1949.

Mr. Helb⁶ called by appointment this morning and said that he was instructed by his Government to inquire of the Department's attitude with respect to the question of recognition of the Chinese Communist regime. He said that the British Government had informed the Netherlands Government of its intention to extend recognition to the Chinese Communist regime about January 2 and was endeavoring to persuade the Netherlands Government to take similar action at the same time. He explained that the Netherlands Government was of the opinion that it would have to take such action within the next few weeks but that it did not consider that it could accord recognition by January 2 for several reasons. These reasons, he described, in-

⁴ The Ward party left Mukden on December 7 and Tientsin on December 11.

⁵ James D. Van Putten, Consul at Peiping.

⁶ H. A. Helb, Counselor of the Netherlands Embassy.

cluded (1) the attitude of the other Brussels Pact Powers and (2) the necessity of consultation in this regard with the Indonesians subsequent to the transfer of sovereignty. In reply to my query, he said that the Netherlands Government had not yet set any definite date for recognition.

I reviewed for him briefly the Department's attitude on the question of recognition, pointing out that it remained unchanged. In brief, the Department considered that there is nothing to be gained by hasty or premature action in this regard and that hasty action would serve no advantage to the nation so acting. I said that it would, of course, be desirable to maintain a common front on this question but that it was recognized that each nation must make its own decision in the light of what it considered to be its own interest. I said that the U.S. Government obviously could not give serious consideration to the question of recognition of the Chinese Communist regime at this time in view of the failure of the Chinese Communist regime to observe even minimum standards of international conduct, as evidenced by their treatment of U.S. consular officials in China, with particular reference to the Ward case. In reply to my question, Mr. Helb said that the Netherlands Government would not seek to obtain any *quid pro quo* or any commitments from the Chinese Communists prior to extending recognition, unless it should do so in connection with the question of recognition of the United States of Indonesia. I asked Mr. Helb whether he expected the Netherlands Government and the Indonesian Republic to take joint or simultaneous action with respect to according recognition. He said that the Netherlands Government was bound to consult the Indonesians on this matter and that the Indonesians were, of course, desirous of obtaining widespread recognition of their sovereign status subsequent to the transfer of sovereignty. This, he said, would lead them probably to send a circular note to all powers making a bid for recognition. In this connection, he pointed out that membership in UN was obviously in the minds of the Indonesian authorities. When I asked whether the Indonesians would ask the Chinese Government or the Chinese Communist regime for recognition, he replied that they would undoubtedly address their request to the Chinese Communists, which would probably be transmitted by Netherlands representatives in China. He expressed the opinion that the Indonesians would probably wish to follow the lead of India in according recognition and that they felt that the Asiatic nations understood the threat of Communism in Asia better than the Western powers. When I asked Mr. Helb whether the Indonesian leaders were aware of the hostility of the Chinese Communist regime toward them and of the aims of the Chinese Commu-

nists as shown in the recent WFTU ⁷ meetings in Peiping, he said that these aspects of the situation had been brought to the attention of Hatta. He pointed out that the Indonesian leaders seem to be confident of their ability to deal with the Communist threat in Indonesia.

I thanked Mr. Helb for communicating to the Department the views of the Netherlands Government and asked that he continue to keep in touch with the Department on this question. I indicated that we would do likewise.

893.01/12-2749 : Telegram

The Chargé in Burma (Day) to the Secretary of State

RANGOON, December 27, 1949—noon.

[Received 1:48 p. m.]

562. Burmese Government opinion:

Dominant Socialist group would welcome early or delayed recognition by US as strengthening their position but Conservatives would see long-range disadvantage in increasing prestige of regime that may invade or infiltrate into Burma. Action would weaken belief that US is bulwark against communism and be regarded proof US policy opportunistic.

Indefinite withholding of recognition would reinforce respect for US as upholder of law and democratic freedoms but would aggravate sense of insecurity from rivalries major powers and incline Government Burma rely even more on Commonwealth rather than US for aid.

Burmese public opinion:

Early or delayed recognition would be interpreted as evidence US not strong enough follow independent course. As public susceptible to Communist or leftwing Socialist propaganda derogatory to US, effective information program explaining reasons would be desirable.

DAY

893.01/12-2749

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sproue)

[WASHINGTON,] December 27, 1949.

Mr. Rocheta ⁸ was brought to my office today by Mr. Dunham ⁹ for the purpose of discussing the question of recognition of the Chinese

⁷ World Federation of Trade Unions (Communist controlled).

⁸ Manuel Rocheta, Counselor of the Portuguese Embassy.

⁹ William B. Dunham, of the Office of Western European Affairs.

Communist regime. He said that he had been instructed by the Portuguese Government to communicate to the Department its views on this question and to ascertain whether there had been any change in the Department's views. He said that the British Government had recently informed the Portuguese Government of its intention to extend recognition about January 2 and was endeavoring to seek similar action by the Portuguese Government. He pointed out that the Portuguese Government had, of course, to keep in mind the problem of Macao and that while it had not yet reached a decision or replied to the British Government, preferring first to seek the views of this Government, it might have to accord recognition in the near future.

I reviewed briefly the Department's position on this question, saying that the Department could not seriously consider recognition at this time, particularly in view of the failure of the Chinese Communists to observe even the minimum standards of international conduct, apart from the question of observing its international obligations in terms of treaties and agreements. I described briefly the Ward, Smith-Bender and other cases involving mistreatment of American official personnel. I said that it was the Department's view that hasty or premature action was undesirable and that the interests of the Western nations would in general not be served by hasty recognition. I continued that the maintenance of a common front was to be desired but that it was recognized that each nation must make its decision in the light of what it considered its own interests.

I thanked him for informing the Department of the views of his Government and asked that he continue to keep in touch with the Department in this regard prior to any action that might be taken by the Portuguese Government. I said that we would also keep in touch with the Portuguese Government on this question.

893.01/12-2049 : Telegram

The Secretary of State to the Ambassador in the Philippines (Cowen)

WASHINGTON, December 27, 1949—5 p. m.

1564. Dept expects keep Phil Govt fully informed in advance any definitive step on part US to recognize Chi Commies. Dept sympathetic Phil Govt desire avoid appearance fol US lead in this matter. Reurtel 2880 Dec 20.

You may in ur discretion so inform Phil Govt.

ACHESON

893.01/12-2749

*The British Embassy to the Department of State*¹⁰

Mr. Bevin wishes Mr. Acheson to know that it has been decided, after very careful consideration, to notify the Chinese Communist Government on 6th January, 1950, of His Majesty's Government's decision to accord *de jure* recognition.

It is intended to appoint Mr. J. C. Hutchison, at present Officer in Charge of His Majesty's Embassy at Nanking, to be His Majesty's Chargé d'Affaires, pending the appointment of an Ambassador.

On the same day the Chinese Ambassador in London will be informed of the withdrawal of *de jure* recognition from the Nationalist Government and that he will no longer be recognized as Ambassador. As regards Formosa he will be notified that, in accordance with our practice, His Majesty's Consul there will continue to maintain *de facto* relations with the local authorities. The Ambassador and his staff will be offered asylum in the United Kingdom should they so desire.

No publicity will be given to the decision until the date of notification.

WASHINGTON, 27 December, 1949.

893.01/12-2749

The Consul at Taipei (Edgar) to the Secretary of State

No. 143

TAIPEI, December 27, 1949.

[Received January 4, 1950.]

According to the local press Foreign Minister George Yeh on December 18 announced the National Government's severance of diplomatic relations with Burma and issued the following statement:

"Taipeh, Dec. 18, (Reuters): Foreign Minister George Yeh announced Nationalist Government's severance of diplomatic relations with Burma who had earlier granted recognition to the Chinese people's government in Peking.

In a statement, Yeh said:

"The Chinese Government learns with regret of the recognition extended by the government of Burma to the Soviet sponsored Communist regime in Peiping. It is amazing that while fighting against the Communists in its own land, the Burmese Government should have thought expedient to recognize a Communist regime in a neighboring country where the traditional character of the people can no more accept the Communist ideology than that of the peoples of Burma. The

¹⁰ Handed by the Counselor of the British Embassy (Graves) to the Director of the Office of Chinese Affairs (Sprouse) on December 28.

Chinese Government believes that before long Burma will find herself confronted with a situation where the Soviet inspired fifth columnists in Burma join hand with those in China in an attempt to establish a totalitarian rule in all Asiatic countries. While still cherishing the friendliest feelings toward the peoples of Burma, the Chinese Government is constrained to sever diplomatic relations with Burma under the present government."

DONALD D. EDGAR

Speaks

893.01/12-2849 : Telegram

The Consul General at Singapore (Langdon) to the Secretary of State

SINGAPORE, December 28, 1949—5 p. m.

[Received December 28—4:58 a. m.]

422. Knowing people here (Depcirtel December 16) think of US recognition, not in terms of when, but whether it should be given.

British officials give impression of sympathetic understanding our reluctance to recognize, laying it to home politics, pique at total loss our China efforts, Ward case et cetera, but at same time of thinking overwrought feelings influence our rational consideration of question, e.g. Dening jestingly told me our White Paper¹¹ gave Singapore conference best case for recognition. MacDonald's abstract justification recognition is people's right to choose own govt as Chinese people have done in broad sense. Malay opinion may be passed over as unconcerned with affairs outside Malaya. Leaders domiciled China think along following general lines:

Interest in China nonpolitical, sentimental, not exceeding wish for peace in, and international respect for, land of ancestors or relatives, hence question US recognition academic interest only. Chinese people do not take Communist ideology seriously and regard Communist victory as triumph not ideology but essentially, and for time being, good over bad. Victors should have fair trial to be rejected by traditional means if misrule. If US does not recognize government Chinese people have now accepted but continues recognize government it, itself, exposed as corrupt and hopeless, Chinese people will be puzzled by US logic. Chiang has fled from fair fight and his bombing and blockades unavailing and inhuman, thus continued to him culpable.¹² US recognition would not be thought abject or mercenary any more "than a millionaire would be thought so toward a beggar".

¹¹ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949).

¹² This sentence is apparently garbled.

As all informed people including Chinese here recognizes ours as special case, my guess is they hardly expect our early recognition along with others, but rather after decent interval probation.

LANGDON

893.01/12-2849 : Telegram

The Ambassador in Sweden (Matthews) to the Secretary of State

STOCKHOLM, December 28, 1949—6 p. m.

[Received 9:33 p. m.]

1298. Re Embtel 1164, November 22, 1 p. m.¹³ Chinese Ambassador Wei-lin Hsieh told us today that on December 22 Foreign Minister Uden sent for him to say that Swedish Government had decided in principle to recognize Peiping Communist regime within a few days after British. Uden said British had informed him they would extend recognition early in January. From other remarks made by Uden, Chinese Ambassador infers British recognition will take place not later than January 9 (possibly on January 6) and that Norway and Denmark would take action similar to that of Sweden.

Hsieh said Uden was most cordial personally and said that he might remain in Sweden as long as he desired. Since his conversation FonOff has in fact extended his Swedish residence visa to May 30, 1953. Hsieh is undecided as to whether he will live in Sweden or France and requests a diplomatic 3(2) visa to visit the US for a brief period while he is making up his mind. Visa will be granted unless instructed by telegraph to contrary. I might add that there is no question in my mind of Hsieh's anti-Communist views.

He tells us that to date he has sensed no pro-Communist views amongst the members of his staff although four Chinese students now in Sweden are, he suspects, preparing to declare their adherence to the Peiping regime.

MATTHEWS

893.01/12-2849 : Telegram

The Ambassador in Norway (Bay) to the Secretary of State

OSLO, December 28, 1949—8 p. m.

[Received December 28—3:39 p. m.]

902. In reply to question by Embassy Counselor today, Skylstad, Secretary General Foreign Office, said Norway would recognize government of Communist China early in January. This decision had

¹³ Not printed.

been taken after consultation with British Government and was based on Norwegian shipping interests in China rather than political motive. Norwegian Ambassador, now on way back China, would take up residence Peiping.

When asked whether Norwegian Government had considered possible effect on UN of recognizing Communist China, Skylstad replied situation would undoubtedly be "awkward". It was pointed out that US Government had adopted policy of "hesitation" in recognizing Communists in view of doubts re their ability discharge international obligations as exemplified by Ward case. Skylstad answered he could appreciate this point, but nevertheless fact must be faced that Nationalist China was virtually finished and realities of situation must be met.

Sent Department 902, pouched London, Stockholm, Copenhagen.

BAY

893.01/12-2949

Memorandum of Conversation, by the Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] December 29, 1949.

Mr. Hagglof¹⁴ called this morning at his request to discuss the question of recognition of the Chinese Communist regime. He stated that he had received a telegram from Stockholm indicating that the French Government and the U.S. were endeavoring to persuade the British to delay recognition until the French Government had ratified the March 8 Agreements with respect to Indochina. Mr. Hagglof informed me that he had not been requested by his Foreign Office to consult with the Department on this matter, but that he desired clarification of the connection between the ratification of the March 8 Agreements and the British recognition of the Chinese Communists.

I indicated that this was primarily a matter for discussion with the French, but for Mr. Hagglof's background information I gave him my understanding of the question as follows: The French have made urgent representations to the British requesting that recognition of the Chinese Communist regime be delayed at least until the March 8 Agreements have been ratified and the transfer of authority to Bao Dai effected; it is apparently the belief of the French Government that British recognition of the Chinese Communists prior to that time would have the effect of encouraging the forces of Ho Chi Minh and at the same time of jeopardizing the success of Bao Dai, while the ill effects of recognition subsequent to the transfer of authority would be

¹⁴ Ingemar Hagglof, Counselor of the Swedish Embassy.

greatly reduced. In response to Mr. Hagglof's question whether the U.S. had made similar representations to the British, I informed him that we had simply mentioned the French interest in this matter.

I then took the opportunity to point out in some detail the position of the U.S. with respect to the question of recognition of the Chinese Communists. I mentioned the complete absence of any assurances regarding the attitude of the Chinese Communists toward China's international obligations; their unwillingness to abide by even the minimum standards of international conduct and decency; the flagrant examples of inhumane conduct such as the Olive,¹⁵ Ward and Smith-Bender cases; the inadvisability of taking hasty action toward recognition; and the desirability of the interested non-Communist powers adopting a common course of action. I stated, however, that the question of whether to recognize was in the final analysis one for each individual power to decide for itself, but that the U.S. for its part could not at this time seriously consider extending recognition.

Mr. Hagglof replied that he was fully appreciative of our point of view, but indicated that the Swedish Government had some time ago decided definitely to recognize the Chinese Communists and that it was simply a question of when. He added that the Norwegian and Danish Governments were apparently prepared to extend recognition almost simultaneously with the British, and that the Swedish Government would probably follow suit before the end of January.

I thanked Mr. Hagglof for conveying this information to the Department and stated that I would be appreciative of receiving any further information on the subject which he might receive. He assured me that he would keep the Department informed of the Swedish Government's intentions in this regard and that he would surely let us know well in advance of the actual according of recognition.

893.01/12-2949 : Telegram

The Chargé in Burma (Day) to the Secretary of State

RANGOON, December 29, 1949—2 p. m.

[Received December 29—10:38 a. m.]

566. Following text Foreign Minister People's Republic to GOB re recognition Communist China was released by GOB yesterday and carried most newspapers this morning.

"I have the honor to acknowledge on behalf of the Central People's Government of the People's Republic of China the receipt of Your

¹⁵ For correspondence on the case of William M. Olive, Vice Consul at Shanghai, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter IV.

Excellency's telegram of December 16, 1949, informing me that the Government of the Union of Burma wishes to establish diplomatic relations with the People's Republic of China.

"I have further the honor to state that after Your Excellency's Government has severed relations with the remnants of the Kuomintang reactionaries my Government will be pleased to establish diplomatic relations with the Government of the Union of Burma on the basis of equality, mutual benefit and mutual respect for territory and sovereignty. It is hoped that your Government will appoint a representative to Peiping to begin negotiations on this matter."

Reply must be considered rebuff to GOB which in according early recognition risked widespread criticism, presumably in hope improving Burma-China relations.

Newspaper *Burman* comments reply surprisingly disappointing; fails to see point in severing relations with government no longer existing; considers Chinese Foreign Minister's reply "unmerited piece of studied cold-shouldering".

Local press 20th carried Reuter's Taipei release stating Nationalists severed relations with GOB December 18.

DAY

893.01/12-2949: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 29, 1949—3 p. m.

[Received 5:09 p. m.]

1612. We continue to adhere in general to views expressed in our telegram 1025, September 6, re probable reaction here to various courses of action we might take re recognition Communist China. As result of developments since September, however, we are inclined to believe that immediate recognition by US of Communist China, unless latter should sharply revise its attitude towards US, would be more injurious to our position in India than if these developments had not occurred. These developments include treatment by Communist China of our officials and other nationals, statements by responsible Communist Chinese leaders re international intentions, statements by US officials, et cetera.

Following are our further comments re estimate reaction India to three contingencies mentioned in Depcirtel December 16, 3 a. m.

Point 1. Our failure join in granting early recognition will undoubtedly subject US to considerable criticism by Indian political leaders and wide sections Indian press. In our opinion, however, it would be better for our position in India for US to face this criticism rather than to reverse our policies at this juncture and accord recog-

dition of a regime maintaining contemptuous attitude towards US. We would appear weak and vacillating if after treatment accorded our nationals and after we had appealed for international hesitation in recognition we should proceed at once to recognize. Certain Indian political leaders would undoubtedly be pleased if US should follow lead of GOI thereby endorsing their position and strengthening their internal and international leadership. Such action on our part, however, would undoubtedly cause GOI to give less weight in future to our views on international problems, to have less respect for our judgment of international situation, and to create doubts re our tenacity of purpose.

Point 2. If we should accord recognition at later date after it had been granted by most of other interested countries, our position in India would not be injured so severely as it would be if we recognized immediately. Much of course would depend upon attitude taken by Communist China during interim. If after delay we should recognize regime, international attitude of which has not materially improved, some critics here would gloat because great Western Power had been compelled to capitulate to new Asian regime; others would point out that when we found that other countries were unwilling to subscribe to principles advocated by US we abandoned these principles for sake of expediency. Some circles in India disillusioned with results of Indian recognition would probably regret that US had granted recognition without extracting conditions which might also improve relations between India and Communist China. GOI understands that if we adhere our avowed policy of hesitation their recognition will contribute to problems SC¹⁶ in January. It assumes that countries recognizing, including India and UK, will support Communist China representative for seat while we support Nationalist China representative. It feels eventually majority SC will decide in favor Communist China. Split in SC placing India and UK on side Russia will not be entirely displeasing to formulators Indian foreign policy, particularly Nehru, since alignment in this respect can serve as further evidence GOI adherence to policy of following middle road between two power blocs. Nehru might also consider that such split means progress for his policy of endeavoring extricate UK from close associations US and to bring it over into a neutral bloc in which he hopes play major role. If during interim Communist China assumes attitude which indicates that it is possible for non-Communist countries including ourselves to have advantageous relations with it, we can accord recognition without loss of prestige in India, since we shall not have abandoned any position.

¹⁶ Security Council of the United Nations.

Point 3. If we withhold recognition indefinitely and if in meantime relations between India and Communist China are fairly smooth, we can expect continuing criticism on ground that our position is unrealistic, that by our stubbornness we are causing much suffering to innocent Chinese people, and that we lack sympathy for Asian peoples. Indian press and political leaders will accuse US of hindering development of genuine Chinese nationalism and rendering more difficult termination of cold war. If relations between India and Communist China are not as friendly as GOI hopes they will be, criticism our failure recognize may gradually subside and eventually GOI leaders may hope that we do not accord recognition at least until there is change in China's attitude toward India. We do not believe that we should permit Indian criticism or press to influence too greatly such decisions as we may take with regard to Communist China. In our opinion our long-range position in India will be stronger if we refrain from recognition until it becomes more clear what Communist China plans to do re international obligations and what international policies it really pursues, particularly re countries southeast Asia, Burma, Philippines and Indonesia.

HENDERSON

893.01/12-2949 : Telegram

The Ambassador in Ceylon (Satterthwaite) to the Secretary of State

COLOMBO, December 29, 1949—4 p. m.
[Received December 29—9:32 a. m.]

288. Permanent Secretary External Affairs informs me Ceylon expects follow UK lead in recognizing Communist regime in China. He expects his action be completed before Commonwealth Foreign Ministers convene on January 9.

SATTERTHWAITE

893.01/12-2049 : Telegram

*The Secretary of State to the Ambassador in the Netherlands
(Chapin)*

WASHINGTON, December 29, 1949—7 p. m.

1189. Dept concurs gen conclusions Moscow's 3157, Dec 21 to Dept¹⁷ relayed to Hague, Batavia and suggest you might appropriately use background info that msg in discussions (this tel is in specific response

¹⁷ Not printed; it discussed the Soviet attitude toward nationalism in colonial areas as based on writings by Lenin and Stalin, with special regard to signs of hostility for the new United States of Indonesia (501.BC Indonesia/12-2149).

to urtel 1282, Dec 20 relayed Batavia, Moscow) with concerned officials. Believe Indos shld be encouraged not recognize Chi Commie regime before US recognizes. You might stress fol considerations:

1. USSR attitude toward admission Indo [to] UN will be determined by larger Soviet objectives not by merits of case nor Indo acts designed win over USSR. Gen lines Sov attitude Indos made clear recent Sov veto SC Indo res[olution].

2. Even if Chi Commie were to recognize Indos might lead to no change Sov attitude Indos admission to UN but result in immed estab Chi Commie mission Indo with unlimited opportunities for penetration and anti-Hatta maneuvering.

3. Unless special GA¹⁸ shld be called of which no present indication Indo cannot be admitted UN until next Sep at earliest hence wisest policy proceed slowly vis-à-vis both Chi Commie regime and USSR.

ACHESON

501.A Summaries/12-2949 : Telegram

*The Deputy United States Representative at the United Nations
(Gross) to the Secretary of State*

[Extract]

NEW YORK, December 29, 1949—10:30 p. m.

[Received December 30—1 a. m.]

1485.

SECURITY COUNCIL (458th Meeting)

NARRATIVE

USSR not to recognize "Kuomintang Delegate"

Malik (USSR) recalled at the outset that the USSR had at the last GA supported the declaration of the "Chinese People's Republic", in which it challenged the legitimacy of the delegation headed by Tsiang. The USSR, he declared, would not regard the "Kuomintang Delegate" as representing China. After an almost identical statement by Galagan (Ukraine), Tsiang asserted that the two statements struck a blow at the very legal and moral foundations of the UN.

Noting that the basis for the statement lay in a telegram from Chou En-lai, self-styled Foreign Minister of the "so-called People's Republic", Tsiang asked: Who made him Foreign Minister; who created that regime? He had, he recalled, placed before the last GA

¹⁸ General Assembly of the United Nations.

evidence that the "People's Republic" was nothing but a puppet regime inspired by the USSR. This question had been referred to the IC,^{18a} to which he would submit additional evidence, he stated. It was, he concluded, his "firm belief" that the SC should pay no attention to the USSR and Ukraine "groundless statements".

Stating that the opportunities to make the foregoing statements had been afforded in accordance with longstanding custom, President McNaughton¹⁹ ruled "that the matter is closed". After Malik intervened again to state that he did not intend to challenge the ruling, since he did not deem it necessary to take note of the "irresponsible statements and slander" of a "man who represents nobody", the agenda was adopted without objection and the council turned to the Kashmir question. . . .

GROSS

893.01/12-3049 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 30, 1949—noon.

[Received December 30—8:26 a. m.]

5153. Following is text of letter dated December 29 addressed to me by William Strang²⁰ in response to my letter of December 24 transmitting personal message from Secretary to Mr. Bevin (Deptel 4592, December 23).

"Dear Julius, Before he left, the Foreign Secretary asked me to send you a reply to your letter to him of the 24th December about the recognition of the Chinese Communist government.

Mr. Bevin asks you to thank Mr. Acheson for his message and to express regret that our two Governments have not found it possible to keep in step on this question. For our part, we have done all we could to delay matters in the hope of being able to synchronise with the United States Government, but for reasons with which Mr. Acheson is already familiar, we have been unable to do so.

Although our two Governments are not able to agree in this instance, Mr. Bevin is very ready to keep in the closest touch with the United States Government on matters relating to China and the Far East, and he shares Mr. Acheson's views about the necessity of stimulating the free peoples of that area to resist the spread of communism.

With regard to France, Mr. Bevin is very conscious of the difficulties of the French in Indo-China, and is doing his best to assist them

^{18a} Interim Committee (Little Assembly) of the United Nations.

¹⁹ Gen. A. G. L. McNaughton, Canadian Representative at the United Nations.

²⁰ Sir William Strang, British Joint Permanent Under Secretary of State for Foreign Affairs.

in this matter. For Mr. Acheson's confidential information, he hopes to discuss the Commonwealth attitude towards Vietnam at the forthcoming conference in Colombo.

Yours sincerely, signed William Strang."

HOLMES

893.01/12-3049

Memorandum by Miss Ruth E. Bacon, United Nations Adviser of the Bureau of Far Eastern Affairs, to the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant)

[WASHINGTON,] December 30, 1949.

A meeting is to be held this afternoon at 4 o'clock in Mr. Rusk's office to discuss Departmental policy in connection with certain questions affecting the Chinese National Government representative on the Security Council. Background information on certain of these questions is given below for your possible use in connection with that meeting.

I. Present Situation with Regard to Chinese Representation on the Security Council.

New York's 1485, December 29 reports that the Soviet and Ukraine representatives at the Security Council meeting yesterday stated that they would not regard "the Kuomintang Delegate as representing China." After a reply by Tsiang the issue was not pressed.

It is possible that this challenge was intended to pave the way for questioning Tsiang's right to be Chairman of the Security Council during January. If so, the question will be pressed at the next meeting, the date for which has not been set by Tsiang, but which would probably be held during the first week of January.

At the end of this month Argentina, Canada and the Ukraine go off the Security Council and are replaced by India, Yugoslavia and Ecuador. The full composition of the Security Council will be as follows:

China	Norway
Cuba	USSR
Ecuador	United Kingdom
Egypt	United States
France	Yugoslavia
India	

II. Question of Use of Veto.

Attached is a draft position paper ²¹ which has been cleared by FE with the changes marked on it.

²¹ Not printed.

The following main points are made in the position paper.

1. Questions relating to Yugoslavian, Chinese National Government or Chinese Communist regime representatives will be treated as procedural and as not subject to the veto. Accordingly, the affirmative vote of any seven members of the Security Council on these questions will be accepted as decisive and a negative vote on our part will not be counted as a veto. Similarly, we would vote against according the Chinese National Government the right to veto questions affecting his credentials or the credentials of Communist representatives.

2. In advance of a public statement of the US position in the Security Council the Department should inform Congressional leaders of its proposed position.

There would seem to be good reason for holding that approval of credentials, if it involves deciding which of two claimants is in fact the government of a permanent member of the UN, is larger than a procedural question. FE did not press this position, however, in view of the fact that it was prepared to concur in the conclusion reached in the position paper that the veto should not be used on such questions. If we should insist that a permanent member has the right to veto questions relating to his credentials the result might be to continue representatives of a permanent member indefinitely on the Security Council and to create a chaotic situation in that body. It is not believed also that we would wish to use our first and only veto on this issue.

III. Vote on Seating of Communist Regime Representative or on National Government Representative.

It is believed that under conditions so far as now foreseeable we should vote against the seating of a Communist regime representative or the unseating of a National Government representative so long as we continue to recognize the National Government of China. If that Government should disappear before we recognize the Communist regime a different situation would, of course, be presented but does not need to be taken into consideration for present purposes.

By the time the Council meets it is possible that the following states, in addition to the Soviet satellites, will have recognized: Burma, India, the UK, Norway, Sweden and Denmark. Of the Council membership, the following states would probably favor unseating the National Government representative: India, Norway, the USSR, the UK and Yugoslavia. The following states would be likely to oppose unseating the National Government representative: China, Cuba, Ecuador and the US. It is quite possible that Egypt might vote against the National Government. France's position is some-

what uncertain. A line-up of 6 to 5 or 6 to 4 with one abstention may result unless the UK can persuade France to go along with it.

It is probable that EUR²² will favor voting against the National Government as soon as the British have recognized, or at least abstaining. The argument advanced may be to avoid giving an impression of disunity between the US and UK on this issue. On the other hand, the US and the UK have differed previously, as for example, in connection with the election of Yugoslavia to the Security Council without ill effects upon the UN. The divergence of views between the US and UK on the question of the Chinese Communist regime is well known and efforts on our part to accord our policy to the British, besides being illogical would not be likely to add to our prestige.

It is understood that UNA²³ is prepared to go along with the FE position.

893.01/12-3149 : Telegram

The Ambassador in Australia (Jarman) to the Secretary of State

CANBERRA, December 31, 1949—1 p. m.

[Received December 31—5:11 a. m.]

282. External Affairs official told Foster²⁴ late Friday (Embtl December 30, 3 p. m.²⁵) that Australian Government has taken definite decision re recognition Communists' Government China and has communicated decision to London.

Official added that External Affairs not now at liberty reveal decision to US, but would ask Spender's²⁶ permission.

Delayed sending this message hoping to receive information. Definitely refused this morning. Private and confidential information secured from Office New Zealand High Commissioner to effect Australian Government decision taken before Christmas was to note UK recognition on January 2 without approval and not to recognize now; this apparently in line with NZ action.

JARMAN

²² Bureau of European Affairs.

²³ Bureau of United Nations Affairs.

²⁴ Andrew B. Foster, Counselor of Embassy in Australia.

²⁵ Not printed.

²⁶ Percy C. Spender, Australian Minister for External Affairs and External Territories.

POLICY OF THE UNITED STATES TOWARD FORMOSA
(TAIWAN): CONCERN OF THE UNITED STATES RE-
GARDING POSSIBLE CONQUEST BY CHINESE COM-
MUNISTS

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37

[WASHINGTON,] December 1, 1948.

THE STRATEGIC IMPORTANCE OF FORMOSA

Upon the request of the Acting Secretary of State¹ for an appraisal of the strategic implications to U.S. security should Formosa and its immediately adjacent islands, including the Pescadores, come under an administration which is susceptible of exploitation by Kremlin-directed communists, the views of the Joint Chiefs of Staff on the subject were obtained and are circulated herewith for the information of the National Security Council.

SIDNEY W. SOUERS

[Annex]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense
(Forrestal)*

WASHINGTON, 24 November 1948.

Subject: Strategic Importance of Formosa.

In accordance with the memorandum from your office dated 8 November 1948, the Joint Chiefs of Staff have considered the memorandum attached thereto from the Executive Secretary of the National Security Council in which an appraisal by the Joint Chiefs of Staff is requested as to the strategic implications to the security of the United States should Formosa and its immediately adjacent islands come under an administration which would be susceptible to exploitation by Kremlin-directed Communists.

¹ Robert A. Lovett.

The Joint Chiefs of Staff are of the opinion that, under the assumption set forth above, the strategic implications to the security of the United States would be seriously unfavorable.

Since the basic assumption could in all probability become valid only if we have been unable to prevent China itself from becoming largely Communist-controlled, the strategically valuable areas of that country, including air base sites, harbors and coastal railroad terminals, would have little utility to the United States in the event of war. This would enhance, from the strategic viewpoint, the potential value to the United States of Formosa as a wartime base capable of use for staging of troops, strategic air operations and control of adjacent shipping routes.

Unfriendly control of Formosa and its immediately adjacent islands would be of even greater strategic significance. Unless Formosa can be denied to Kremlin-directed exploitation, we must expect, in the event of war, an enemy capability of dominating to his advantage and our disadvantage the sea routes between Japan and the Malay area, together with a greatly improved enemy capability of extending his control to the Ryukyus and the Philippines, either of which could produce strategic consequences very seriously detrimental to our national security. In the latter connection, it should be noted that the distinct possibility of unfriendly control of Formosa makes it even more essential that strategic control of the Ryukyus, as previously recommended by the Joint Chiefs of Staff, remain in United States hands.

An additional strategic implication of importance rests in the fact that Formosa is capable of serving as a major source of food and other materials for Japan, a source that would, of course, be denied under the assumed conditions. This in turn could quite possibly be a decisive factor as to whether Japan would prove to be more of a liability than a potential asset under war conditions.

Based upon the foregoing, the Joint Chiefs of Staff believe that it will be most valuable to our national security interests if, in spite of the current Chinese situation and its obvious trends, Communist domination of Formosa can be denied by the application of such diplomatic and economic steps as may be appropriate to insure a Formosan administration friendly to the United States.

For the Joint Chiefs of Staff :

WILLIAM D. LEAHY

Fleet Admiral, U.S. Navy

Chief of Staff to the

Commander in Chief of the Armed Forces

894A.00/1-649

Memorandum of Conversation, by the Counselor of Embassy in the Philippines (Flexer²)³

[Tokyo, December 7, 1948.]

Mr. Sebald⁴ had opportunity to present the personal letter,⁵ which Mr. Kennan⁶ had addressed to General MacArthur,⁷ at a private conversation with the latter on the evening of December 6, 1948, the day of my arrival at Tokyo. SCAP opened and read the said letter in Mr. Sebald's presence but did not reveal the contents to the latter beyond remarking that it left him at sea regarding the purpose of my unannounced visit to Japan. My reception was arranged for the following morning, December 7. Mr. Sebald accompanied me to headquarters at the arranged time and left me alone with the General when the presentations had been made.

The General was informed of the desire of a certain few of the high policy-making officers of the Department to have the benefit of his frank personal views upon the potential effects upon our defense plans in the western Pacific, in view of the cessation of effective opposition to the advance of the Communist armies in North China, of the possible passage of the government in Formosa to the Communists or to a group dominated by or subservient to the Communists. For background, I sketched briefly my understanding of the then-current political situation in Formosa, as hastily gathered before emplaning for Tokyo, but without mention of exploratory thoughts upon our position should Dr. Wei Tao-Ming⁸ (or General Sun Li-jen⁹) declare Formosan autonomy or ask to be taken under the wing of the United Nations upon Chiang's¹⁰ fall.

General MacArthur needed no urging. The subject evidently is close to his heart and mind.

From the strategic standpoint, he said vehemently, to permit the access of an unfriendly power to Formosa would be to invite rupture of our whole defense line in the Far East. Our Okinawan spearhead

² Fayette J. Flexer, Counselor of Embassy in the Philippines en route to the United States for assignment to the Department.

³ Copy transmitted by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State on January 6, 1949.

⁴ William J. Sebald, Acting Political Adviser in Japan.

⁵ Not found in Department of State files.

⁶ George F. Kennan, Director of the Policy Planning Staff.

⁷ Supreme Commander, Allied Powers in Japan (SCAP) and Commander in Chief, Far East (CinCFFE).

⁸ Chinese Governor of Taiwan.

⁹ Commander in Chief of the Chinese Army Training Headquarters on Taiwan.

¹⁰ Generalissimo Chiang Kai-shek, President of the Republic of China.

would be under immediate and constant threat and would be untenable or dangerously undependable.*

SCAP sketched our line of defense: Dutch Harbor-Ryukyus (Okinawa)-Marianas (Guam-Saipan), with the Philippines (Clark Field-Fort Stotsenberg) as an auxiliary base (Note that the military usage of Japan was not suggested). With its most easterly war plants concentrated in the Urals and with its dependence for transport placed in a single-track Trans-Siberian railway, Russia, he said could not have mounted an amphibious offensive through that line within 50 years from ports within its proper territory.

The situation was changed for the worse—from the point of view of United States strategy—when Manchuria fell to the Communists and is further progressively worsening as the Communists advance down the coast of China, thus endangering the entire “left” of the line.

Adequately developed, equipped and manned, the Okinawa base itself, by the use of air power alone, could keep inoperable any air fields in eastern Asia from Vladivostok to Shanghai and could accomplish the destruction of any amphibious forces which might be embarked at ports along that coastal strip. However, SCAP strongly states, Okinawa is not being developed, aircraft are being withdrawn despite his remonstrances, ground forces are negligible. Now, assuming pursuit of the Communist advance southward from the Yangtze Kiang or the passage otherwise of South China (with Formosa) into Communist control, the advantages are about to go over to the potential adversary.

Of course, SCAP emphasized with what seemed to touch upon bitterness, if the United States has no intention of developing and holding on to its position on Okinawa, our present concern for Formosa would appear to be misplaced. He said that repeated strong recommendations to the Pentagon concerning the situation in the Pacific had been fruitless. He had even had improperly to make use of Japanese materials and resources for necessary air-field construction for which funds were not forthcoming from Washington; housing of military dependents was deficient and deplorable, contributing to the general dissatisfaction of personnel with the station. Naval forces in the Far East had been weakened dangerously; a bomber group was even then in the process of withdrawal from Okinawa for European service and a force of fighters from Guam was being transferred to the Canal Zone;

*Northeastern Chekiang Province, on the mainland, likewise would seem to offer a threat to Okinawa and the Ryukyus from the air, being only little more distant therefrom than is Formosa.

There are some 50 paved air-strips on Formosa, of which the four largest have 5000-foot runways. The harbor and naval base at Takao in southwestern Formosa is said to have easily sheltered the whole Japanese fleet on occasion. [Footnote in the source text.]

altogether, the fighting strength in the Pacific was less than on the day of Pearl Harbor.

While the Pentagon came in for most criticism for restricting its foreign outlook to the European situation, SCAP does not clear State from responsibility for allegedly holding over decision upon the future political status of Okinawa, thus delaying outlays for the island's military development (I remain impressed that SCAP's opinion comes from a hectographed paper—possibly of JCS origin—dated later than the NSC document of October, 1948¹¹).

It is to be noted that SCAP expressed no thought of necessity or desirability of establishing United States bases on Formosa. His concern, like State's, is that Russia (and presumably any other non-Chinese foreign power) shall not be permitted to establish itself on or to have the usage of the facilities of that island.

It is also to be noted that we are all indulging the assumption that a Communist-dominated government in China automatically would invite the USSR to base military activities upon Chinese territory. Does this necessarily follow?

F[AYETTE] J. F[LEXER]

893.50 Recovery/1-1449

Memorandum by the Acting Secretary of State to President Truman

WASHINGTON, January 14, 1949.

Subject: U.S. Armed Forces at Tsingtao; Problem of Formosa

The Department of State recommends, in accordance with the decision of the National Security Council on December 24, 1948,¹² subsequently approved by the President, that Admiral Badger¹³ be instructed to base aboard ship the U.S. Armed Forces at Tsingtao before the termination of the withdrawal of the Chinese Naval Training Corps and the Chinese Naval Academy from Tsingtao and that he be authorized temporarily to retain ashore the recreational facilities now being used by his command.

The Department of State also recommends the implementation of the decision of the National Security Council on December 24, 1948, subsequently approved by the President, that the existing program for training units of the Chinese Navy should be suspended upon the removal of the Chinese naval training activities from Tsingtao and

¹¹ NSC 13/2, October 7, 1948, regarding United States policy toward Japan, *Foreign Relations*, 1948, vol. VI, p. 858.

¹² NSC 11/3, not printed; substance contained in telegram No. 1895, December 28, 1948, to the Ambassador in China, *Foreign Relations*, 1948, vol. VIII, p. 344.

¹³ Vice Adm. Oscar C. Badger, Commander, U.S. Naval Forces, Western Pacific.

should not be reestablished at this time either on Taiwan or at Amoy. This recommendation is based upon the following considerations:

1. The Department of State concurs in the Joint Chiefs of Staff conclusion that it is in our strategic interest that Formosa be denied to communists.

2. The communist threat to Formosa does not lie in amphibious invasion from the mainland. It lies in (a) the classic communist technique of infiltration, agitation and mass revolt, and (b) the classic Chinese technique of a deal at the top.

3. The dispatch of U.S. naval vessels and Marines to Formosa is not likely to prove effective in countering these techniques. A show of American military strength in this manner is more likely to provide Formosan fuel for the communist fire and rally public opinion behind the Chinese Communists on the mainland.

In the light of the Joint Chiefs of Staff conclusion that political and economic measures should be taken to deny Formosa to the communists, the Department has prepared a paper on this subject¹⁴ which is now under consideration in the National Security Council. It should be noted that U.S. military aid supplies are being diverted to Formosa and that the Chinese Air Force and Navy are establishing their headquarters on the island. These actions, together with the evacuation of the families and effects of important Government officials to Formosa, indicate that the Chinese Government is building up the island as a bastion to which it may withdraw from the mainland.

Should the Chinese Communists attempt to gain control of the island by forceful means contrary to the wishes of the Formosan people, or if the Formosans themselves should revolt against their Chinese rulers, justification would exist for action by the United Nations both on the grounds that the situation represented a threat to peace and on the basis of the *de facto* status of Formosa. The Indonesian case would afford some useful parallels from the United Nations point of view. Intervention by the United Nations might be requested by the Australian or the Philippine Governments with a view to arranging for a plebiscite to determine the wishes of the Formosan people.

The Department of State fully recognizes that it may be necessary at some stage for the United States to take military action if Formosa is to be denied to the communists. It strongly believes that for political reasons, internally in Formosa and internationally, the United States should go to great lengths to avoid crude unilateral intervention. But that time is not yet upon us. The United States has not exhausted all of the political possibilities. It may still be able to foster a Chinese non-communist local government which will itself successfully deny Formosa to the communists.

¹⁴ See NSC 37/1, January 19, p. 270.

Meanwhile, the United States should, as it is now doing, prepare for the failure of the above contingency and put itself in a position to intervene with force if necessary. Such intervention should be publicly based not on obvious American strategic interests but on principles which are likely to have support in the international community, mainly the principle of self-determination of the Formosan people.

This involves the fostering of a Formosan autonomy movement which can be called into full action should it become evident that the Chinese regime on the island is unlikely to be able to deny the island to the communists.

In the light of the foregoing, the Department of State recommends that the Joint Chiefs of Staff be requested to reach a decision, in the event that the United States is unsuccessful by political and economic means in preventing Formosa from falling under communist control, whether they regard Formosa as sufficiently vital to the United States national interest that they would be prepared to advocate that the United States go to war to prevent such a development.

ROBERT A. LOVETT

893.50 Recovery/1-1449

Memorandum by the Acting Secretary of State to President Truman

WASHINGTON, January 14, 1949.

Subject: Industrial Replacement and Reconstruction Program for Formosa

The Economic Cooperation Administration has suspended procurement authorization for all industrial replacement and reconstruction projects under its China aid program. In view of the strategic importance of Formosa to the United States and its physical separation from the area of conflict, the Department of State recommends the reconsideration of this decision insofar as it affects Formosa.

ROBERT A. LOVETT

894A.01/1-1549 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, January 15, 1949—7 a. m.

[Received January 16—11:23 a. m.]

14. Re Deptel 2, January 7¹⁵ and Embassy telegram 89, January 12.¹⁶ There was never any intention despite unintended implica-

¹⁵ *Post*, p. 1214.

¹⁶ *Post*, p. 1215.

tion last paragraph take action proposed my 6¹⁷ at "this juncture". Action proposed if the suggestion in Embtel 4¹⁸ that Generalissimo would make Taiwan last stand and use it as a base materialized. In this case I consider danger most likely.

Realize Embassy and Department have sources of military information not available to me but feel I must in view seriousness express my strong personal opinion as to certain factors.

1. Chinese forces are of course sufficient cope with natives but whether forces would or could protect Americans against violent native reaction against US highly doubtful. Also consider that even if we still support Generalissimo here we are not going to be popular with at least Chinese military and have too often seen xenophobia aided and abetted these gentry to take this lightly. These factors are developing right this moment. Chinese army officers getting tough with local labor unloading munitions from US Naval vessels has added fuel to the flames of discussion of that operation.

2. As I constantly stress, we are dealing with a people with long history of unreasoned violence who rightly or wrongly will blame us for what happens here. Chen Cheng's¹⁹ treatment of the people in Wuhan²⁰ cities after VJ Day should warn us of his probable course here.

3. Studying record I conclude that Chen is one of the few generals who could be depended on to stick with Generalissimo to last ditch, hence I cannot believe Formosa would be handed over to a Chinese Government excluding Generalissimo. Army personnel closely associated with Chen are arriving here constantly, the latest General Hsueh Yo, former CinC²¹ ninth war area.

4. I am sure Wei and Sun Li-jen were skeptical reliability Chinese Navy and CAF²² and Australian general officer of high reputation familiar with latter has same opinion. This general officer also believes that although it should not be possible that in present circumstances it is feasible for Communists successfully acquire shipping and attack island. These considerations inspired mytel 93, December 8²³ regarding naval surveillance Taiwan waters. Embtel 2517²⁴ stating this seemed inadvisable apparently misunderstanding my intention which was not that navy become involved or enter territorial waters but merely that we should know what goes on in Formosa channel. Regard-

¹⁷ January 6, 3 p. m., p. 1212.

¹⁸ Not printed.

¹⁹ Governor of Taiwan in succession to Wei Tao-ming.

²⁰ Wuchang, Hankow, Hanyang.

²¹ Commander in chief.

²² Chinese Air Force.

²³ *Foreign Relations*, 1948, vol. VIII, p. 227.

²⁴ December 15, 1948, *ibid.*, p. 230.

ing munitions brought here, the men who will use them are the same inept group as in China with presumably the same top direction. This connection draw attention previous reports weakness Fukien and incompetence of CinC General Li there.

5. Informed government officer here says Chen Cheng will shortly be named CinC southeast bandits [*sic*] suppress Communists and indicating active action against Communists. My initial talk Chen and other reports support this.

6. Would seem me large wealth here and being poured in would certainly tempt Communists try to get before Generalissimo can get dug in. Communists must also be aware legal status island until Jap treaty. Seems me overwhelming advantage *de facto* possession island at time of treaty. Would also seem to hit Soviet aims.

7. To sum up, island seems safe for time being and time being only and that time may run out quickly. Except in extreme [garbled group] will of course consult before action.

Solely to help evaluation, wish say that I have consciously reported only very informed sources and anything else is plainly labeled as rumor.

Repeated Nanking as 11.

KRENTZ

894A.00/1-1849

Memorandum of Conversation, by the Deputy Director of the Office of Far Eastern Affairs (Allison)

[WASHINGTON,] January 18, 1949.

During the course of an interview on another matter Mr. Daridan²⁵ raised the question of the future status of Formosa in the event that all of China became Communist-dominated. He expressed the opinion that if China should become Communist he could not see why Formosa should necessarily remain Chinese. He said that according to information he had received a Formosan Emancipation League had recently published a pamphlet in Tokyo looking toward an autonomous movement in Formosa, and he wondered whether or not we had any definite information regarding this matter. I told him that we did know of the existence of this so-called Formosan Emancipation League in Japan, but that we did not have any great detail regarding it. Mr. Daridan stated that the problem of Formosa raised many complicated legal and practical problems and he himself had been toying with the possibility of the creation at an appropriate time of an inde-

²⁵ Jean Daridan, Counselor of the French Embassy.

pendent Formosa. I merely agreed with him that the problem of Formosa was complicated and that obviously the nations concerned would have to give considerable thought to it, but stated that so far as I was personally concerned I did not see exactly what the solution might be.

893.50 Recovery/1-1949

*The Administrator of the Economic Cooperation Administration
(Hoffman) to the Acting Secretary of State*

WASHINGTON, January 19, 1949.

DEAR MR. LOVETT: The Economic Cooperation Administration in consultation with the Chinese Government made tentative allocations for reconstruction and replacement projects on Taiwan, as shown on the attached table.²⁶ Preliminary engineering work is under way on all but one or two of these projects.

I should very much appreciate an indication of your views as to whether ECA might appropriately proceed with actual procurement on all or some of these projects, such procurement to be undertaken in each case after completion of the pre-project engineering with respect thereto.

Sincerely yours,

PAUL G. HOFFMAN

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/1

[WASHINGTON,] January 19, 1949.

THE POSITION OF THE UNITED STATES WITH RESPECT TO FORMOSA

The enclosed draft report on the subject, prepared in the Department of State, is submitted herewith at the request of the Acting Secretary of State for consideration by the National Security Council.

With reference to NSC Action No. 169,²⁷ Mr. Lovett requested that instead of following the normal working staff procedure in this case, the paper prepared in the Department of State be placed on the agenda for a future meeting of the Council. Mr. Lovett said that, when it came

²⁶ Not printed; tentative allocations totaled \$14,125,000.

²⁷ On January 6 the National Security Council directed its staff to prepare as a matter of urgency a report for consideration by the Council on the position of the United States with respect to Formosa, taking into consideration the discussion at the meeting, the views of the Joint Chiefs of Staff in NSC 37, and the proposals by the Army and Navy, and the forthcoming comments thereon by the Department of State.

up for discussion there would be an oral amplification of the views set forth in the enclosure.

Mr. Lovett also said he would recommend that the new Secretary of State²⁸ communicate with the Executive Secretary regarding the date of a Council meeting at which this problem could be discussed.

It is recommended that, if the Council adopts the enclosed report, it be submitted to the President with the recommendation that he approve the conclusions contained therein and direct that they be implemented by all appropriate executive departments and agencies of the U.S. Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS
Executive Secretary

[Annex]

Draft Report by the National Security Council on the Position of the United States With Respect to Formosa

[WASHINGTON,] January 19, 1949.

THE PROBLEM

1. To determine U.S. policy with respect to Formosa and the Pescadores.

ANALYSIS

2. The Joint Chiefs of Staff concluded in NSC 37²⁹ that it would be in the interest of U.S. national security if Communist domination of Formosa could be denied by the application of appropriate diplomatic and economic steps. The Department of State associates itself with the general sense of this conclusion.

3. The present legal status of Formosa and the Pescadores is that they are a portion of the Japanese Empire awaiting final disposition by a treaty of peace. The U.S. position regarding the status of the islands is qualified by the Cairo Declaration by the Chiefs of State of the U.S., U.K. and China³⁰ and the policy which the U.S. has followed since V-J Day of facilitating and recognizing Chinese *de facto* control over the islands.

4. The elements involved in the Formosan situation are:

- (a) the indigenous population;
- (b) the ruling Chinese class from the mainland; and
- (c) the Communists.

²⁸ Dean Acheson.

²⁹ Dated December 1, 1948, p. 261.

³⁰ *Foreign Relations, The Conferences at Cairo and Tehran, 1943*, p. 448.

5. The indigenous population has a strong sense of regional autonomy stemming back to the nineteenth century when Formosa was independent. The Formosans are anti-Chinese, as well as anti-Japanese, and would welcome independence under the protection of the U.S. or the UN. But the indigenous population is without political experience, organization or strong leadership. The Japanese prevented the development of native political life and the Chinese liquidated most of the developing native leaders in the abortive revolt of 1947. At least one small group of Formosan autonomists of dubious quality is known to exist now on the islands. The present refugee Formosan group in Hong Kong and on the mainland is vocal but small and incapable of organizing by itself a successful revolution on its home islands.

6. The ruling Chinese class in Formosa has since V-J Day displayed a genius for mis-government. However, the present Governor of Formosa, General Chen Cheng, may be able to develop a stable non-Communist Government over the islands. But this is by no means certain. The greatest obstacle to his accomplishing this is the influx of refugee politicians and militarists from the mainland—many of them men whose gross incompetence has played into the hands of the Communists in China. The arrival of the Generalissimo, who seems intent upon building up Formosa as his final stronghold, would be particularly unsettling locally.

7. The Communists in the islands are now a weak, small group. There would seem to be two methods through which they might eventually obtain control over the islands. One is through infiltration and organization not only of the native population but also of the Chinese armed forces on the islands. The other is through a deal whereby the Communist-dominated successor government on the mainland successfully negotiated with the Chinese regime on Formosa for a take-over.

8. Alternative courses of action which the U.S. might pursue with regard to Formosa and the Pescadores are:

(a) To occupy the islands under the terms of the Japanese surrender³¹ either through negotiations with the National Government or by direct action after the collapse of that Government. It is unlikely that the Nationalists would negotiate any such transfer. Whether or not direct action encountered Chinese armed resistance on the islands, there is no doubt that it would galvanize all mainland Chinese opinion in support of the Communists, the very thing we must avoid if our political warfare is to have any degree of success in China. And no matter how earnest our protestations of good faith, such a move would be cynically viewed by the international community and might very well lead to a case being brought against us in the Security Council by China, which would be politically exceedingly damaging to us.

³¹ September 2, 1945, Department of State *Bulletin*, September 9, 1945, p. 364.

(b) To negotiate an agreement with the National Government providing for U.S. extra-territorial and base rights in Formosa. While the National Government might be willing to grant the U.S. base rights in Formosa, it would probably do so only *in extremis* for the purpose of obtaining U.S. assistance in maintaining its hold on the island. It is, however, doubtful that it would even in its present extremity grant the restoration of extra-territoriality in view of the fact that every Chinese regime for several decades has sought to abolish such special privileges for foreigners in China and since these privileges were relinquished by foreign powers so recently, the U.S. having taken the lead in negotiations to that end resulting in the Sino-American Treaty of 1943 for the Relinquishment of Extra-Territorial Rights and Related Matters.³² Any successor government of any complexion would probably cancel treaty rights of both these categories and would eventually probably be supported in the UN. In any event, such concessions would be an illusory defense against Communist capture of power through either penetration or a deal. Military bases are not a sovereign remedy against Communist infection in a foreign country. As often as not they are an aggravating factor. U.S. national interests would only be served by Formosa's being controlled by a government not friendly to the USSR.

Also, as in (a) above, the Communists would be able to exploit the granting of bases to the U.S. in Formosa to rally public support of mainland Chinese to themselves with the result that the U.S. position on the mainland would be jeopardized.

(c) To support on Formosa the National Government or a rump thereof *as the recognized Government of China*. This would increase risks of immediate local instability, provide the most fertile environment for the growth of Communism, greatly complicate our position on the mainland and hamstringing our tactical flexibility toward China Proper.

(d) To support continued *local* non-Communist Chinese control, using our influence wherever possible to discourage the use of Formosa as a refuge for National Government remnants. Working against efforts to prevent an influx of these remnants is the increasing tendency of a great many Kuomintang officials and their families to seek refuge on the island. Furthermore, the Generalissimo has recently appointed as governor a general personally loyal to him and there are ample indications that the Generalissimo is building up the island as a fortress to which he may eventually repair. However, support of local non-Communist control in Formosa would permit greater freedom of U.S. action in China, although it would involve considerable risks of failure through several factors. An important factor is that which has contributed so to our inability to bring positive influence to bear effectively in China—our lack of a counter-force in hand, an alternative to the National Government leaders which we could use as a pressure to influence Nationalist policy and administration. Lacking such a force we may find that the Chinese would continue to ignore

³² Signed at Washington, January 11, 1943, Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

our recommendations and endeavor to blackmail us with their indispensability in preventing Communist control of the island. Other factors would be the danger of a turn-over to any coalition government that might be formed on the mainland and the possibility of Communist infiltration of the Chinese armed forces on Formosa.

9. The U.S. cannot leave out of account the Formosan people and their strong resentment of Chinese rule arising from Chinese maladministration and repression. Formosan discontent provides possible material for Communist infiltration and exploitation and the U.S. should be prepared to make use of a Formosan autonomous movement if and when it appears desirable in the U.S. national interest to do so.

CONCLUSIONS

10. The basic aim of the U.S. should be to deny Formosa and the Pescadores to the Communists. The most practical means for accomplishing this at the present time is by isolating those islands from the mainland of China without ourselves taking any open unilateral responsibility for them or power over them.

11. It is apparent from what has been said in the brief analysis that in seeking to achieve this aim our choice of courses of action with regard to Formosa and the Pescadores is much the same as in many other areas of Asia—the choice is not between satisfactory and unsatisfactory courses of action but rather of the least of several evils or an amalgam of the lesser of them.

Given the uncertainties of the Formosan situation, we should maintain a wide latitude of flexibility in our position.

12. When the situation in China has developed to the point where we know what governing groups we will have to deal with in Formosa, the U.S. should seek to develop and support a local non-Communist Chinese regime which will provide at least a modicum of decent government for the islands. We should also use our influence wherever possible to discourage the further influx of mainland Chinese. The U.S. should also seek discreetly to maintain contact with potential native Formosan leaders with a view at some future date to being able to make use of a Formosan autonomous movement should it appear to be in the U.S. national interest to do so.

13. This Government should make it discreetly plain to the governing authority on Formosa that :

(a) The U.S. has no desire to see chaos on the mainland spread to Formosa and the Pescadores ;

(b) The U.S. has not been impressed by Chinese administration on the islands and believes that if there is continued misrule the Chinese authorities would inevitably forfeit the support of world opinion which might be expected to swing in favor of Formosan autonomy;

(c) U.S. support for the governing authorities of Formosa will inevitably depend in a large measure upon the efficiency of their regime and the extent to which they are able to contribute toward the welfare and economic needs of the Formosan people and permit and encourage active Formosan participation in positions of responsibility in Government.

(d) The U.S. cannot remain unconcerned over possible developments arising from the influx of large numbers of refugees from the mainland and the consequent effects, including the increasing burden on the island's economy, and is disturbed at the indication of the Chinese belief that the building up of military strength on Formosa will in itself provide an effective barrier to Communist penetration;

(e) The U.S. expects that the lessons to be drawn from developments on the mainland and from previous Formosan reactions to Chinese rule will not be overlooked by the Chinese authorities in dealing with the problems of the island and with the Formosan people.

893.00/1-2149 : Telegram

*The Secretary of State to the Ambassador in China (Stuart)*³³

WASHINGTON, January 22, 1949—3 p. m.

84. Dept would appreciate your obtaining from JUSMAG³⁴ (your 183 Jan 21³⁵) more detailed info. re disposition US milit equipment landed Formosa.

ACHESON

893.00/1-2549 : Telegram

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

NANKING, January 25, 1949—noon.

[Received January 25—9:51 a. m.]

204. Chief³⁶ JUSMAG informs us, your 84, January 22, that JUSMAG loses control equipment when Chinese take physical delivery and has no knowledge its subsequent disposal.

Sent Department 204, repeated Taipei 13.

STUART

³³ Repeated to the Consul General at Taipei as No. 5.

³⁴ Joint U.S. Military Advisory Group.

³⁵ Vol. VIII, "Political and military situation in China", chapter I.

³⁶ Maj. Gen. David G. Barr.

893.00/1-2649 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, January 26, 1949—4 p. m.

[Received January 26—1:37 p. m.]

20. Reurtel 5.⁴⁰ Majority US military equipment remains Keelung dock but local government making effort disperse through island. Railways choked with unloaded cars. No sign plans reship mainland.

Repeated Nanking as 17.

KRENTZ

894A.01/1-2649 : Telegram

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

SHANGHAI, January 26, 1949—9 p. m.

[Received January 27—12:01 a. m.]

263. Joshua Liao, Formosan Re-emanicipation League leader, (mytel 2449, November 17 to Department,⁴¹ repeated Nanking 1855) has again approached Consul General. Expressing concern over reported recent arrival Taiwan of American military equipment, Liao protested against further American aid serving to "facilitate oppression" Taiwanese by Central Government "SS troops" and voiced appeal that US assist or at least remain neutral toward "spontaneous" Taiwanese revolt which Liao professed to expect near future. Also stressed his hope following the revolt American army units in Formosa would assist in disarming Government forces.

Liao claimed natives well armed and trained and sure of success "this time". Intimated that revolt would likely start upon fall of Nanking taking open underground form (sabotage and assassination) depending on revolutionaries' strength. He implied he himself would prefer await establishment new Chinese Nationalist coalition government before making decision to launch revolt but that some of his associates were growing restive. He insisted that revolt will be neither anti-American nor Communist inspired.

Liao admitted knowledge Nationalists have 6 divisions in Formosa. View this admission and of other remarks, it is suspected that he may envisage "success" in terms less of military victory than of world dramatization of his people's predicament which will gain attention and sympathy of UN.⁴²

⁴⁰ See footnote 33, p. 275.

⁴¹ *Foreign Relations, 1948, China*, vol. VII, p. 585.

⁴² United Nations.

Sent Nanking 202, repeated Department, Taipei 13, pouched Hong Kong.

CABOT

893.00/1-2749 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, January 27, 1949—11 a. m.
[Received January 27—2: 17 a. m.]

21. Remytel 20 to Department,⁴³ 17 to Embassy, Nanking. General Pan, local SOS⁴⁴ officer in charge, says one-third transshipped to mainland ports, third dispersed on island, third still Keelung.

Repeated Nanking as 18.

KRENTZ

894A.00/1-2749 : Telegram

*The Consul General at Hong Kong (Hopper) to the Secretary of State*⁴⁵

HONG KONG, January 27, 1949—11 a. m.
[Received 5:55 a. m.]

20. Formosan League reports receipt urgent reports from leaders Taiwan asserting uprising imminent owing determination Formosans to forestall further development island as Kmt⁴⁶ stronghold in face present Nanking crisis. Liao sending Philip Huang to Taiwan by air January 28 to investigate and attempt defer plans for uprising, immediate approval of which now sought by FLR⁴⁷ leaders on island. Liao anxious for information Department's attitude particularly if uprising occurs and whether possible SCAP intervene maintain order and take over control from Chinese. Asserts Communists now very active spreading rumors and increasing popular unrest and predicts Communists will participate in and attempt seize control uprising. Says FLR will do utmost prevent such control and to combat violent anti-US propaganda now featured by Communists.

As Liao frequently in past has suggested fall Nanking suitable moment for uprising, possibly disorders Formosa are imminent.

HOPPER

⁴³ January 26, 4 p. m., p. 276.

⁴⁴ Services of Supply.

⁴⁵ Repeated by the Department to the Consul General at Taipei as telegram No. 8, January 28, 3 p. m.

⁴⁶ Kuomintang (Nationalist Party).

⁴⁷ Formosa League for Re-emancipation.

893.00/1-2849 : Telegram

The Acting Political Adviser in Japan (Sebald) to the Secretary of State

TOKYO, January 28, 1949.

[Received January 28—3:39 a. m.]

33. Reur 26, January 26.⁴⁸ General MacArthur will be glad to cooperate fully with Department's desires as suggested in reference telegram.

Reur 27, January 27.⁴⁸ Krentz request just received but as plane under JUSMAG control, Barr requested by priority radio give necessary authorization direct Consulate General, Taipei.

SEBALD

893.50 Recovery/1-1949

The Under Secretary of State (Webb) to the Administrator of the Economic Cooperation Administration (Hoffman)

WASHINGTON, January 31, 1949.

MY DEAR MR. HOFFMAN: I refer to your letter of January 19, 1949 to Mr. Lovett in which you requested his views as to whether ECA might appropriately proceed with actual procurement on all or some of the reconstruction and replacement projects on Taiwan as indicated on a table attached thereto. It is the Department's view that it would be desirable for ECA to undertake procurement for such of the projects on Taiwan as are approved by ECA after completion of necessary engineering surveys.

Sincerely yours,

JAMES E. WEBB

894A.01/2-249 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, February 2, 1949—4 p. m.

[Received 10:15 p. m.]

27. At Governor's request with his wife as interpreter, had 2-hour conversation largely economic affairs, et cetera, but several significant remarks. Said "I will not allow a Communist or a coalition government or any other mainland government take over here; I will need your experience, help and that of US enable me do best for people's welfare. Hope you can spare time frequent visits.["] Said ["if an autonomous people's government can be built up, and I will try to

⁴⁸ Not printed.

build, I would be happy to assume role of private citizen.[]” Discussing Chiang,⁴⁹ said [“]latter most despondent, under better times, other circumstances might resume leading role but not now as ‘not for the welfare of the people’. Taiwan must be seed bed for a new China; many good people have come here; they will be utilized; many bad, who will be rigidly controlled. Hu Shih⁵⁰ has consented come here advise me.”

Conversation generously interlarded flattery or with oft-reiterated theme, “We need much advice and help from US. It is a shame we mis-managed US aid but I promise better results here.”

Said I probably had heard he was making many new appointments, that he had so contemplated but had changed mind as he found most present officers good men.

Chen’s wife highly intelligent. Believe highly influential. I suggest consult biographical data her background. Chen is most typically old school, she is not.

Sent Department 27; repeated Nanking 22.

KRENTZ

Executive Secretariat Files

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] February 2, 1949.

Since the preparation and submission to the National Security Council of the Department’s paper entitled “The Position of the United States with respect to Formosa”, contained in NSC 37/1 of January 19, 1949 (Tab A), further reports have been received from U.S. official sources in China bearing upon the conclusions of the Joint Chiefs of Staff concerning the strategic importance of Formosa and their belief that it would be important to U.S. national security interests if Communist domination of Formosa could be denied by diplomatic and economic steps.

Ambassador Stuart reports in his despatch no. 11 of January 10, 1949⁵¹ (received on January 26) as follows: “Communists are infiltrating into these armed forces (the Chinese Air Force and Navy on Formosa) and the laboring classes. They have some airplanes and may have more with further desertions. His (the Generalissimo’s) sea-girt stronghold is therefore by no means impregnable.”

⁴⁹ Generalissimo Chiang retired as President on January 21 in favor of Vice President Li Tsung-jen as Acting President.

⁵⁰ Former Chinese Ambassador to the United States and Chancellor of National Peking University.

⁵¹ Missing from Department of State files.

In a telegram dated January 26, 1949⁵² General Barr expresses the opinion that "should the Chinese Air Force and Navy remain loyal to the Generalissimo, which is doubtful, and should they really fight, which they have not done in the past, he should be able to hold Taiwan for some time."

In a telegram dated January 28⁵³ Consul General Cabot at Shanghai reports that General Barr has expressed serious doubts that Formosa could be held with the Chinese Air Force and Navy in their present state of inefficiency. He further reports that Mayor Wu of Shanghai in reply to General Barr's question stated that the Chinese felt reasonably confident of the loyalty of the Air Force and Navy but admitted that there was considerable Communist agitation among the crews of merchant ships and agreed that disparities between Chinese Army and Air Force pay should be lessened.

The foregoing reports point to the possibility that the application of diplomatic and economic measures suggested by the Joint Chiefs of Staff may not succeed in preventing Communist domination of Formosa.

894A.01/2-349 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, February 3, 1949—10 a. m.

[Received February 3—4:35 a. m.]

30. ReDeptel 8⁵⁴ and Shanghai 263.⁵⁵ Believe analysis last paragraph latter telegram close to mark.

FLR small influence and other groups disunified. Suspect all of them hope to force outside action by exaggeration.

However, some evidence organization sabotage plus demonstrations to provoke retaliation upon which latter I spoke forcibly to those concerned.

My staff, missionaries, et cetera, traveling [on] island see no signs popular feeling except where provoked by small clashes which must increase.

Leadership is so compounded of patriotism, irresponsibility and greed as give doubt effectiveness beyond flash in pan. Korean history closest parallel.

Cannot yet assess Communist work but believed gaining ground all circles.

⁵² *Post*, p. 481.

⁵³ Telegram No. 280, vol. VIII, "Political and military situation in China", chapter II.

⁵⁴ See footnote 45, p. 277.

⁵⁵ January 26, 9 p. m., p. 276.

Sent Department 30; repeated Shanghai 28, Hong Kong unnumbered, Nanking 24.

KRENTZ

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/2

[WASHINGTON,] February 3, 1949.

THE CURRENT POSITION OF THE UNITED STATES WITH RESPECT TO
FORMOSA

At its 33rd Meeting the National Security Council considered a draft report on the above subject (NSC 37/1⁵⁶) and adopted the enclosed conclusions for consideration by the President.

The National Security Council recommends that the President approve the conclusions contained herein and direct that they be implemented by all appropriate executive departments and agencies of the U.S. Government under the coordination of the Secretary of State.

The National Security Council also has in preparation studies regarding further U.S. actions with respect to Formosa which may be deemed desirable in the interests of U.S. security.

SIDNEY W. SOUERS

[Annex]

*Report by the National Security Council on the Current Position of
the United States With Respect to Formosa*

[WASHINGTON,] February 3, 1949.

1. When the situation in China has developed to the point where we know what governing groups we will have to deal with in Formosa, the U.S. should seek to develop and support a local non-Communist Chinese regime which will provide at least a modicum of decent government for the islands. We should also use our influence wherever possible to discourage the further influx of mainland Chinese. The U.S. should also seek discreetly to maintain contact with potential native Formosan leaders with a view at some future date to being able to make use of a Formosan autonomous movement should it appear to be in the U.S. national interest to do so.

⁵⁶ January 19, p. 270.

2. This Government should make it discreetly plain to the governing authority on Formosa that :

(a) The U.S. has no desire to see chaos on the mainland spread to Formosa and the Pescadores ;

(b) The U.S. has not been impressed by Chinese administration on the islands and believes that if there is continued misrule the Chinese authorities would inevitably forfeit the support of world opinion which might be expected to swing in favor of Formosan autonomy ;

(c) U.S. support for the governing authorities of Formosa will inevitably depend in a large measure upon the efficiency of their regime and the extent to which they are able to contribute toward the welfare and economic needs of the Formosan people and permit and encourage active Formosan participation in positions of responsibility in Government.

(d) The U.S. cannot remain unconcerned over possible developments arising from the influx of large numbers of refugees from the mainland and the consequent effects, including the increasing burden on the island's economy, and is disturbed at the indication of the Chinese belief that the building up of military strength on Formosa will in itself provide an effective barrier to Communist penetration ;

(e) The U.S. expects that the lessons to be drawn from developments on the mainland and from previous Formosan reactions to Chinese rule will not be overlooked by the Chinese authorities in dealing with the problems of the island and with the Formosan people.

3. The U.S. Government, through the most flexible mechanisms possible, should conduct a vigorous program of economic support for the economy of Formosa, designed to assist the Formosans in developing and maintaining a viable, self-supporting economy.

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, February 4, 1949.

Subject: The Current Position of the United States With Respect to Formosa

Reference: NSC 37/2⁵⁷

The President has this date approved the reference report and directs that it be implemented by all appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

⁵⁷ February 3, *supra*.

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Secretary of State

WASHINGTON, February 4, 1949.

Pursuant to the action of the National Security Council at its 33rd Meeting, it is requested that the Department of State furnish, for the use of the NSC Staff in preparing a report on Formosa supplementary to NSC 37/2,⁵⁸ a statement of specific and immediate steps which the U.S. should take with respect to Formosa.

SIDNEY W. SOUERS

894A.01/2-849 : Telegram

*The Consul General at Taipei (Krentz) to the Secretary of State*TAIPEI, February 8, 1949—4 p. m.
[Received February 8—5:59 a. m.]

35. Evidence increasing Generalissimo's hand operating here. Trend to harsh police government marked in many actions. Economic situation worsening. C-C⁵⁹ retainers active. Population restive, resentful military, especially CAF bad behavior. Good authority Chen to appoint General Lo Cho-ying, a deputy garrison commander, and that General Peng⁶⁰ urges appointment General Sun Li-jen, also a deputy under him. Lo's bad record well known. Chen Cheng has told high officials here he will govern here as he did in Hupeh, i.e., Kmt reactionary style. Wholesale replacements by generals believed held up partly for consolidating position and partly with one eye on US. All liberal Chinese [who] deplore trends have no recourse. Taiwanese opinion seems be that revolt before further Kmt digging in [is] advisable or golden opportunity lost. I attempt counsel patience and am urging Chinese moderation but feel situation deteriorating rapidly. Taiwanese action believed aimed wholesale sabotage, avoidance direct clash.

Over 80 members Legation [*Legislative?*] Yuan here, being paid locally, engaging politics.

Sent Department 35, repeated Nanking 30, PolAd Tokyo.

KRENTZ

⁵⁸ February 3, p. 281.⁵⁹ The brothers Chen Li-fu and Chen Kuo-fu, leaders of a faction of the Kuomintang.⁶⁰ Lieutenant General Peng Meng-chi, Deputy Commander of the Taiwan Peace Preservation Headquarters.

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/3

[WASHINGTON,] February 11, 1949.

THE STRATEGIC IMPORTANCE OF FORMOSA

Pursuant to NSC Action No. 179-b,⁶¹ the Secretary of Defense has forwarded the enclosed memorandum from the Joint Chiefs of Staff, containing their views on the subject, supplementary to those contained in NSC 37.⁶²

The enclosure is accordingly circulated herewith for the information of the National Security Council and for use by the NSC Staff in preparing a supplementary report on Formosa pursuant to NSC Action No. 179-d.⁶³

SIDNEY W. SOUERS

[Annex]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense
(Forrestal)*

WASHINGTON, 10 February 1949.

Subject: The Strategic Importance of Formosa

In accordance with your memorandum dated 7 February 1949, the Joint Chiefs of Staff have considered the action (No. 179b) adopted by the National Security Council on 3 February 1949 in which the Joint Chiefs of Staff are requested to furnish the Council an estimate of the extent of the threat to United States security in the event that diplomatic and economic steps to deny Communist domination of Formosa prove insufficient, and recommendations as to what, if any, military measures should be taken in that event.

The Joint Chiefs of Staff are of the opinion that, under the assumptions set forth above, the extent of the threat to the security of the United States would be serious. Their appraisal of the strategic im-

⁶¹ Agreement by NSC on February 3, 1949, that the Joint Chiefs of Staff furnish the National Security Council an estimate of the extent of the threat to the security of the United States in the event that diplomatic and economic steps to deny Communist domination of Formosa prove insufficient, and recommendations as to what, if any, military measures be taken in that event.

⁶² December 1, 1948, p. 261.

⁶³ Directive to the NSC Staff to prepare a supplementary report on Formosa.

plications of Communist domination of Formosa, contained in their memorandum to you dated 24 November 1948,⁶⁴ is directly applicable. Points made therein may be summarized as follows:

a. Loss, present and prospective, of availability of strategically valuable areas of China would enhance the strategic value to the United States of Formosa in view of the potentialities of that island as a wartime base capable of use for strategic air operations and control of adjacent shipping routes;

b. Unfriendly control of Formosa and its adjacent islands would be of even greater strategic significance since this would result, in the event of war, in an enemy capability of dominating the sea routes between Japan and the Malay area and an improved enemy capability of extending his control to the Ryukyus and the Philippines, and

c. Unfriendly control of Formosa would further be detrimental to our national security interests in that Formosa would be lost as a potential major source of food and other materials for Japan, which might well be a decisive factor as to whether Japan would prove to be more of a liability than an asset under war conditions.

In general terms, it having become more apparent than ever that the United States faces the prospect of strategic impotence on the continent of Asia, our military capabilities in the Western Pacific must rest primarily on control of sea lanes and maintenance of strategic air potential from strategically tenable island positions. Enemy control of Formosa would seriously jeopardize our capabilities in these respects while constituting, on the other hand, a major contribution to enemy capabilities.

In their appraisal of 24 November 1948, the Joint Chiefs of Staff reached the conclusion that it would be most valuable to our national security if Communist domination of Formosa could be denied by the application of appropriate diplomatic and economic steps. In this conclusion, resort to military measures was tacitly excluded.

The Joint Chiefs of Staff are still of the opinion that any overt military commitment in Formosa would be unwise at this time. In spite of Formosa's strategic importance, the current disparity between our military strength and our many global obligations makes it inadvisable to undertake the employment of armed force in Formosa, for this might, particularly in view of the basic assumption that diplomatic and economic steps have failed, lead to the necessity for relatively major effort there, thus making it impossible then to meet more important emergencies elsewhere. In this connection the distinction between the Formosan problem and the Iceland situation, where direct action is contemplated, if necessary to prevent Communist control, lies in the fact that Iceland is directly vital to our national se-

⁶⁴ *Ante*, p. 261.

curity while the importance of Formosa cannot be said to be in that category.

The Joint Chiefs of Staff believe, however, that Formosa's strategic importance is, nevertheless, great. Consequently, they are of the opinion that some form of military support should be made available now for assistance in vigorous prosecution of the approved diplomatic and economic steps set forth in NSC 37/2⁷³ for developing and supporting in Formosa a non-Communist Chinese regime. This support should not involve commitment to the employment of force. It should consist of the stationing of minor numbers of fleet units at a suitable Formosan port or ports, with such shore activity associated therewith as may be necessary for maintenance and air communication and for the recreation of personnel.

The Joint Chiefs of Staff, in their memorandum to you dated 20 December 1948, agreed that American naval forces should not at that time be established ashore at Formosa. They stated, however, that their agreement was without prejudice to future determination, if developments so justified, that this decision should be modified. The present proposal would involve only minor modification as necessary for the continued basing afloat of mobile fleet units.

The Joint Chiefs of Staff are aware of the possibility that unfavorable diplomatic repercussion might result from undue resort to what might be termed a show of force. They realize also that it may be difficult to negotiate successfully the necessary arrangements for basing fleet units in Formosan waters. On balance, however, and in view of the threat to United States security implicit in Communist domination of Formosa, they believe that every reasonable effort should be made to keep Formosa in friendly hands, and that diplomatic risks and difficulties are thus justified.

Accordingly, they recommend favorable consideration of the proposal outlined above that, beginning as soon as appropriate arrangements can be made, minor numbers of fleet units be maintained at a suitable Formosan port or ports, with shore activities associated therewith limited to those necessary for maintenance, air communication and recreation, and that the mission of these units be that of exerting, in support of approved diplomatic and economic objectives, all possible stabilizing influence without the employment of force.

For the Joint Chiefs of Staff:

LOUIS DENFELD
Admiral, U.S. Navy

⁷³ February 3, p. 281.

893.50 Recovery/2-1349 : Telegram

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

SHANGHAI, February 13, 1949—2 p. m.

[Received February 13—4:59 a. m.]

508. Re AP despatch datelined Shanghai February 11 quoting statement about nine paragraphs by "anonymous" Formosan re need close supervision ECA Taiwan to ensure aid reach people instead island's new "conquerors" and pocket officials.

Joshua Liao when shown this article by officer ConGen readily admitted his authorship and confirmed accuracy AP version. Liao expects see Lapham⁷⁴ soon and meanwhile hopes his statement will reach Hoffman. In view Liao's prominence among leaders of Taiwanese opposition Gimo's regime, believe statement should be given some weight.

Liao says information he gets from Taiwan indicates that anti-Chinese Government elements becoming increasingly restive to start rebellious activities. Students and discharged military personnel who fought in Japanese Army and picked up new ideas while imprisoned Singapore, et cetera, are chief agitators. Liao suspects considerable Communist infiltration into Taiwan recently but cannot confirm.

Liao reiterated regret that Hong Kong group of his Taiwan Re-Emancipation League (including his brother) failed consult him before sending petition to SCAP giving four alternatives in descending order desirability, namely, full independence, UN trusteeship, US trusteeship, return Japanese rule. He feels so many alternatives confuses and weakens Taiwanese cause and that reversion Japanese rule should never be considered. Thinks much wiser concentrate on working for plebiscite to determine between either full independence or autonomy in federated Chinese framework.

Liao leaving shortly for brief visit Fukien, then return Shanghai.

Pouched Canton, Nanking, Hong Kong, USPolAd Tokyo.
Sent Department 508; repeated Taipei 23.

CABOT

123 Merchant, Livingston T.: Telegram

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

WASHINGTON, February 14, 1949—7 p. m.

211. For Merchant.⁷⁵ Dept wishes you to assume special responsibility with respect to Taiwan. Wording in first sentence of immedi-

⁷⁴ Roger D. Lapham, Chief of ECA Mission in China.⁷⁵ Livingston T. Merchant, Counselor of Embassy in China.

ately following tel ⁷⁶ is occasioned by accounting regulations. Dept desires you retain title of Counselor of Emb and indicate that you are merely going to Taiwan to oversee expanded US representation on that island which milit events on mainland have occasioned and in particular with respect to ECA. Implication that you have been transferred Taipei should be avoided. Accordingly you should feel free to visit Nanking and Shanghai but should not find yourself immobilized on mainland should Nanking or Shanghai pass into hands of Commies.

ACHESON

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/4

[WASHINGTON,] February 18, 1949.

THE CURRENT POSITION OF THE UNITED STATES WITH RESPECT TO
FORMOSA

Pursuant to NSC Action No. 179 c,⁷⁷ the Secretary of State has furnished the enclosed memorandum setting forth the views of the Department of State with respect to specific and immediate steps which the United States should take with respect to Formosa.

The enclosure is accordingly circulated herewith for the information of the National Security Council and for the use of the NSC Staff in preparing a supplementary report on Formosa in accordance with NSC Action No. 179 d.

SIDNEY W. SOUERS

[Annex]

*Memorandum by the Secretary of State to the Executive Secretary
of the National Security Council (Souers)*

[WASHINGTON,] February 18, 1949.

Subject: The Current Position of the United States with respect to
Formosa

Pursuant to the request contained in the memorandum of February 4, 1949 from the Executive Secretary of the National Security Council that the Department of State furnish for the use of the NSC

⁷⁶ Not printed.

⁷⁷ Agreement by NSC on February 3, 1949, that the Department of State should prepare a statement of specific and immediate steps which the United States should take with respect to Formosa.

staff a statement of specific and immediate steps which the United States should take with respect to Formosa, the Department sets forth hereunder its views on this subject.

1. The Department of State should strengthen and increase its representation on Formosa, and to that end should immediately detail a high-ranking officer to Taipei.

2. Upon the arrival of this high-ranking officer at Taipei, he should approach General Chen Cheng, Governor of Formosa, along the lines set forth in paragraph 2 of NSC 37/2 of February 3, 1949.

3. Following these representations to General Chen and the receipt of assurances from the latter that the governing authorities on Formosa are prepared to implement such assurances, the ranking Department of State officer should inform General Chen that the United States Government is prepared, under legislation approved by the Congress and by such other means as may be feasible, to give economic support for the economy of Formosa, designed to assist in developing and maintaining a viable, self-supporting economy on the island.

4. Upon the receipt of appropriate assurances outlined in 3 above, the Economic Cooperation Administration Mission to China should proceed with arrangements for completing the pre-project engineering surveys of the industrial projects on Formosa which will contribute to the above-mentioned objectives and the Economic Cooperation Administration should undertake procurement for such of these projects as are approved after completion of the surveys.

5. The Economic Cooperation Administration should also make a study of and submit recommendations for an over-all program of economic assistance to Formosa.

6. In the initial stages every care should be exercised to minimize the appearance of United States official activities on Formosa and every effort should be made to discourage the further influx of refugees from the mainland.

DEAN ACHESON

893.50 Recovery/2-2549: Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, February 25, 1949—noon.

[Received February 25—6:51 a. m.]

51. For Butterworth. Have talked to Lapham, Moyer,⁷⁸ others at length re ECA plans here. I strongly believe any major plans should be deferred time being and no firm commitments made beyond normal

⁷⁸ Raymond T. Moyer, American member of the Joint Commission on Rural Reconstruction (JCRR).

fertilizer program preproject surveys and small continuing selected RRC projects such as serum stations, etc.

Under deteriorating conditions plus nebulous and changing political conditions I consider aid should not precede larger policy decisions. On last point I also consider that picking Taiwan as isolated area divorced from mainland holds danger Department will know.

I believe we should now mark time hoping for changes which may enable us obtain self-help conditions on more certain terms than hitherto.

Sent Department 51, repeated Nanking 44.

KRENTZ

893.002/2-2549 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, February 25, 1949—5 p. m.

[Received 9:04 p. m.]

52. Chen Cheng is now governing by a kitchen cabinet of generals, notably Lo Cho-ying, with nominal department heads ineffective, frustrated while deterioration all fields visible daily.

Repeated Embassy 45.

KRENTZ

Executive Secretariat Files

Note by the Executive Secretary of the National Security Council (Souers) to the Council

NSC 37/5

[WASHINGTON,] March 1, 1949.

SUPPLEMENTARY MEASURES WITH RESPECT TO FORMOSA

The enclosed report by the Executive Secretary on the subject, prepared with the advice and assistance of representatives of the Departments of State, the Army, the Navy, and the Air Force, and of the National Security Resources Board and the Central Intelligence Agency, is submitted herewith for consideration by the National Security Council as Item 2 on the Agenda for its next meeting on Thursday, March 3, 1949.

It is recommended that, if the Council adopts the enclosed report, it be forwarded to the President with the recommendation that he approve the conclusions contained therein and direct their implementation by all appropriate executive departments and agencies of the U.S. Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Annex]

Draft Report by the National Security Council on Supplementary Measures With Respect to Formosa

ANALYSIS

1. At its 33rd Meeting the National Security Council directed that a report supplementary to NSC 37/2⁷⁹ be prepared on the basis of: (a) the discussion at the meeting; (b) the JCS estimate of the threat to U. S. security, in the event diplomatic and economic steps to deny communist domination of Formosa prove insufficient, and the military measures, if any, which should be taken in that event (NSC 37/3⁸⁰); and (c) a Department of State statement of the specific and immediate steps which the United States should take with respect to Formosa (NSC 37/4⁸¹).

2. The Joint Chiefs of Staff are of the opinion that any overt military commitment in Formosa would be unwise at this time. In spite of Formosa's strategic importance, the current disparity between our military strength and our many global obligations makes it inadvisable to undertake the employment of armed force in Formosa, for this might, particularly if diplomatic and economic steps had already failed, lead to the necessity for relatively major effort there, thus making it impossible then to meet more important emergencies elsewhere.

3. The Joint Chiefs of Staff believe that Formosa's strategic importance is, nevertheless, great. Consequently, they are of the opinion that: (a) some form of military support should be made available now for assistance in vigorous prosecution of the approved diplomatic and economic steps set forth in NSC 37/2 for developing and supporting in Formosa a non-communist Chinese regime. (b) This support should not involve commitment to the employment of force, but should consist of the stationing of minor numbers of fleet units at a suitable Formosan port or ports, with such shore activity associated therewith as may be necessary for maintenance and air communication and for the recreation of personnel.

4. It has been the consistent position of the Department of State, as set forth in the NSC 34 Series,⁸² in NSC 11/2⁸³ and NSC 37/1,⁸⁴ that the establishment of U.S. military forces on Formosa in the pres-

⁷⁹ February 3, p. 281.

⁸⁰ February 11, p. 284.

⁸¹ February 18, p. 288.

⁸² See memorandum by the Policy Planning Staff, September 7, 1948, and footnote 11, *Foreign Relations*, 1948, vol. VIII, p. 146.

⁸³ See annex to memorandum by the Acting Secretary of State, December 14, 1948, and footnote 58, *ibid.*, p. 339.

⁸⁴ Dated January 19, 1949, p. 270.

ent situation would be not only diplomatically disadvantageous but also, and far more importantly, a heavy political liability for us. A show of military strength would be of dubious efficacy in preventing communist agitation and infiltration or conspiratorial negotiations between communist emissaries and Nationalist commanders on Formosa. A show of military strength would have serious political repercussions throughout China; it might create an irredentist issue just at the time we may wish to exploit Soviet action in Manchuria and Sinkiang.

CONCLUSIONS

5. The Department of State should strengthen and increase its representation on Formosa, and to that end should immediately detail a high-ranking officer to Taipei.

6. Upon the arrival of this high-ranking officer at Taipei, he should approach the Governor of Formosa, along the lines set forth in paragraphs 1 and 2 of NSC 37/2 of February 3, 1949.

7. Following these representations to the Governor of Formosa and the receipt of assurances from the latter that the governing authorities on Formosa are prepared to implement such assurances, the ranking Department of State officer should inform the Governor that the United States Government is prepared, under legislation approved by the Congress and by such other means as may be feasible, to give economic support for the economy of Formosa, designed to assist in developing and maintaining a viable, self-supporting economy on the island.

8. Upon receipt of appropriate assurances outlined in paragraph 7 above, the Economic Cooperation Administration Mission to China should proceed with arrangements for completing the pre-project engineering surveys of the industrial projects on Formosa which will contribute to the above-mentioned objectives and the Economic Cooperation Administration should undertake procurement for such of these projects as are approved after completion of the surveys.

9. The Economic Cooperation Administration should also make a study of and submit recommendations to the Secretary of State for an over-all program of economic assistance to Formosa.

10. In the initial stages every care should be exercised to minimize the appearance of United States official activities on Formosa and every effort should be made to discourage the further influx of refugees from the mainland.

11. Units of the U.S. fleet should not now be stationed at or off Formosan ports in support of the political and economic measures envisaged above. This conclusion is without prejudice to a reexamination of this possible course of action should developments on Formosa so justify.

894A.00/3-249: Telegram

The Secretary of State to the Consul General at Taipei (Krentz)

WASHINGTON, March 2, 1949—8 p. m.

30. For Merchant. Pursuant Dept request for JCS views re Formosa, latter have stated it would be in interest US natl security if Comm domination Formosa could be denied by appropriate diplo and econ steps. Subsequent this conclusion Formosan problem submitted to NSC, which adopted report Feb 3 approved by Pres governing US position re Formosa. Fol summary report:

[Here follows summary of report printed on page 281.]

Pursuant NSC request Dept submitted memo Feb 18 outlining immediate steps US should take re Formosa, which now under consideration NSC. Fol summary this memo:

[Here follows summary of memorandum printed on page 288.]

Should be emphasized US objective not take over or establish base on island but accordance JCS study take polit and econ steps deny Comm domination. Timing US approach governing authority Formosa obviously great importance since precipitous commitment support might lead repetition pattern developments mainland under which assurances self-help measures were not followed by performance. Question also arises possibility change Governor Formosa as indicated Embtel 417 Feb 18⁸⁵ (pouched Taipei), which would make undesirable too early approach and commitment support. Taipei's 51 Feb 25 indicates advantages marking time and deferring major plans time being. On other hand Taipei's 51 and 52 Feb 25, together with other reports deteriorating conditions Formosa, argue early approach in effort stabilize situation and enable ECA carry out its plans. Consideration must also be given several vital factors: (1) Chi authorities Formosa might go along with deal mainland coalition govt. (2) Comms might infiltrate Chi armed forces Formosa cause revolt and overthrow local Chi regime, e.g. cruiser *Chungking*. (3) Local Chi milit commanders might swing over to mainland coalition govt. (4) In view transfer Govt financial assets Formosa and econ assets island in terms productivity and source foreign exchange, Comms can be expected make strenuous effort include Formosa by peace arrangements or conquest. (5) Separation Formosa from mainland will inevitably create irredentist movement which would be utilized by Comms rally support and by both Comms and other Chi arouse anti-US sentiment if US involvement too apparent.

ECA considers effectiveness aid requires vigorous program and eventually sizable mission needed. Large mission would make US posi-

⁸⁵ Vol. VIII, "Political and military situation in China", chapter I.

tion more noticeable but general US position Formosa as seen outside should not be particularly affected by size mission. Plans underway request Congressional authorization extend present aid program to June 30, 1949 by use of unexpended balance with suitable provision for ECA administrative expenses beyond that date. In absence further legislation this means ECA personnel would not be available beyond period necessary complete presently planned program but this program if mainland no longer drain on island and with orientation trade toward Japan should produce viable Formosan economy. Pres[ident's] Four Point Program⁸⁶ might provide means further US technical aid and advice.

ECA participation also related problem timing and would seem desirable have full understanding with Chi re ECA role prior major commitment for aid. ECA indicates engineering surveys almost completed and estimates could authorize procurement approx \$10 million for industrial projects during March if given green light soon. Problem arranging distribution and pricing system for fertilizer cited as possible test Chi ability willingness cooperate. Such arrangement seems desirable initial step in plans aid Formosa.

In light this tel, Dept desires your views re timing and general considerations outlined above. Your reply should indicate no distribution.

ACHESON

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, March 3, 1949.

At the request of the Secretary of State the attached statement on "The Formosan Problem", which he made at the 35th Meeting of the National Security Council in connection with the Council's consideration of NSC 37/5⁸⁷ on the subject, is circulated herewith for the information of the National Security Council.

SIDNEY W. SOUERS

[Annex]

Statement by the Secretary of State at the Thirty-Fifth Meeting of the National Security Council on the Formosan Problem

I should like to take this occasion to comment on the problem which we face with regard to Formosa. At our meeting on February 3rd,

⁸⁶ Proposed in President Truman's inaugural address on January 20, 1949, Department of State *Bulletin*, January 30, 1949, p. 123.

⁸⁷ March 1, p. 290.

we adopted certain conclusions now incorporated in NSC 37/2.⁸⁸ These conclusions established a policy of employing diplomatic and economic means to deny Formosa to the Communists. They were approved by the President.

At the same meeting, we asked that the Department of State should prepare a statement of specific and immediate steps which the US should take with respect to Formosa. The State Department's recommendations are incorporated in NSC 37/4.⁸⁹ At the same time, the Joint Chiefs of Staff were requested to furnish the Council an estimate of the extent of the threat to U.S. security in the event that diplomatic and economic steps to deny communist domination of Formosa prove insufficient, and recommendations as to what, if any, military measures should be taken in that event. The JCS reply is now embodied in NSC 37/3.⁹⁰

I have read the JCS paper which seems to me to fall into two parts. One is a general reply to the question raised by this Council. The second half of the paper puts forth explicit recommendations regarding our current policy toward Formosa.

With regard to the first half of the JCS paper, I feel that the JCS has not answered with sufficient clarity the question which we posed. I feel that it would be helpful if they would do so.

As for their recommendations regarding current policy, I cannot help but feel that their suggestion that we make a show of military force in Formosa, if accepted, would impair the efficacy of what we are trying to do through diplomatic and economic means.

Let me expand on this briefly. In attempting to develop separatism in Formosa, we are up against the potential threat of irredentism spreading throughout the great expanse of continental China. We are most anxious to avoid raising the spectre of an American-created irredentist issue just at the time we shall be seeking to exploit the genuinely Soviet-created irredentist issue in Manchuria and Sinkiang. We cannot afford to compromise an emerging new US position in China by overtly showing a pronounced interest in Formosa. It is a cardinal point in our thinking that if our present policy is to have any hope of success in Formosa, we must carefully conceal our wish to separate the island from mainland control.

Now the question may be raised whether Formosa is not so great a prize that we are justified in risking a show of force even though it may incite strong irredentist sentiments in China proper. Our feeling is that, given the tactics employed by the Communists in seizing power, the use of our military power, short of complete blockade and occupation, will be ineffective to prevent Communist control of Formosa. We

⁸⁸ February 3, p. 281.

⁸⁹ February 18, p. 288.

⁹⁰ February 11, p. 284.

have alluded to this principle in the NSC 34 series⁹¹ and in NSC 11/2⁹² and NSC 37/1.⁹³

We are under no illusions that we can through present diplomatic and economic measures guarantee a denial of Formosa to the Communists. The defection to the Communists of the only cruiser in the Chinese fleet is symptomatic of the uncertainties in the present situation, particularly with respect to political conspiracy and "deals" in the higher echelons. At some date in the future, we may conclude that it is impossible to accomplish our aim by present measures and shall then recommend a reexamination of the problem. When that time comes, I shall place the problem of Formosa once more before this Council.

Meanwhile so long as we pursue our present policy I would ask for two things.

Firstly I trust that we may count on disciplined cooperation within the Government in seeking to accomplish this sensitive operation. I hope that the Members of the Council will bear in mind the necessity for restraining evidences of zeal with regard to Formosa.

Secondly I hope that the Military Establishment will not exclude from its thinking and planning the possibility that it might later be called upon to employ modest military strength in Formosa in collaboration with other friendly forces. If we are to intervene militarily on the island, we shall, in all probability, do so in concert with like-minded powers, preferably using UN mechanisms and with the proclaimed intention of satisfying the legitimate demands of the indigenous Formosans for self-determination either under a UN trusteeship or through independence.

[WASHINGTON,] March 3, 1949.

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, March 3, 1949.

Subject: Supplementary Measures With Respect to Formosa

Reference: NSC 37/5⁹⁴

The President has this date approved the Conclusions contained in the reference report, and directs that they be implemented by all ap-

⁹¹ See memorandum by the Policy Planning Staff, September 7, 1948, and footnote 11, *Foreign Relations*, 1948, vol. VIII, p. 146.

⁹² See annex to memorandum by the Acting Secretary of State, December 14, 1948, and footnote 58, *ibid.*, p. 339.

⁹³ Dated January 19, 1949, p. 270.

⁹⁴ March 1, p. 290.

appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

894A.00/3-649 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, March 6, 1949—5 p. m.

[Received 10:07 p. m.]

59. Butterworth from Merchant. Crux present situation is governorship. Chen Cheng lacks qualities provide liberal efficient administration needed. Moreover, as Gimo man he cannot be relied on to prevent or discourage continued influx least desirable mainlanders although mass migration now checked. Substitution Sun Li-jen by Acting President seems on balance solution best suited our interests.

Believe unwise approach Chen Cheng this time along lines Deptel 30 (decoding completed March 5). I concur recommendations paragraph 1, Taipei's 51.⁹⁵ Meanwhile, recommend Department instruct Ambassador encourage Acting President replace Chen Cheng soonest with Sun Li-jen. I plan return Nanking briefly this week.

Sent Shanghai, and Department. [Merchant.]

EDGAR

894A.00/3-649 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, March 8, 1949—4 p. m.

35. For Merchant. Urtel 59 Mar 6. While Sun Li-jen reputation good and he believed well disposed toward US, indications his thinking contained in document ⁹⁶ mentioned Tokyo's 63 Mar 4 to Dept ⁹⁷ (rptd Taipei) offer no grounds for optimism his performance and so far as known his record does not include wide administrative experience. Believe we must keep in mind effort encourage Act Pres replace Chen Cheng this stage might result in appointment person less suitable Chen or Sun since no assurance he would appoint latter. Also indication US interest to Act Pres this time while he attempting negotiate with Comms might in event negotiations successful serve compromise US position. In any event, possibility exists Chen would become disgruntled over efforts remove him and he and his and Gimo followers

⁹⁵ February 25, p. 289.

⁹⁶ Memorandum dated February 12, and annexes not printed.

⁹⁷ Telegram not printed.

would sabotage Sun or any other successor. Ur views re foregoing requested.

ACHESON

894A.00/3-949 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, March 9, 1949—3 p. m.

37. For Merchant. Deptel 30 Mar 2. Fol summary conclusions NSC 37/5 Mar 1 approved by NSC and Pres Mar 3:

[Here follows summary of NSC 37/5 printed on page 290.]

Full text NSC 37/5 sent pouch.

ECA now prepared approve industrial projects and proceed with program Formosa and awaiting Dept decision. In this connection, shld be noted that initiation program Formosa this stage while ECA program mainland still under way would probably draw less attention Formosa program than wld be case at later date when ECA activities mainland further restricted. Furthermore, contd delay might result further deterioration Formosan situation. Additional factor is time element connection with continuation China aid program, present plans for which set forth reftel.

Ur views requested.

ACHESON

893.00/3-949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, March 9, 1949—6 p. m.

[Received 11:46 p. m].

61. From Merchant. To me prime need is for governor who is honest, liberal, effective and not so bound to Generalissimo as to permit move by latter to Formosa for last ditch fight if Li negotiates mainland peace nor so blind to China's interests as to deliver island to coalition government under any mainland peace terms.

I agree your doubts Sun but he meets foregoing requirements on all points save administration experience which he is understood willing to supplement by qualified advisers. Moreover Sun personally controls troops and probably risks less sabotage than any other Chen successor by reason his established position on island.

In any event I undertand Li has already told Ambassador he intends appoint Sun governor. If Ambassador fails enthuse, Li may infer too much and look elsewhere. Meanwhile Chen by appointment is personally digging in. Accordingly I continue recommend discreet encouragement by Ambassador choice Sun and no approach to Chen unless it

develops we must deal with him, uncertain quantity though hope.
[Merchant.]

EDGAR

893.50 Recovery/3-1149 : Telegram

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

SHANGHAI, March 11, 1949—4 p. m.

[Received March 11—5:59 a. m.]

846. From Merchant. It would clearly be desirable defer any ECA action beyond pre-project stage now nearly completed Formosan reconstruction, until Chen has been replaced or his tenure confirmed by Acting President and such Government has given assurances we desire. I recognize, however, pressure April 3 deadline and advantage camouflage lumping Formosan with selected South China projects approval when ECA given green light. Still regard Chen unreliable, hence reluctant recommend start talks which implicitly will encourage him and strengthen his position on island.

I will cable recommendation promptly from Nanking where due March 12, hopeful securing relevant information. [Merchant.]

CABOT

893.00/3-949 : Telegram

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

WASHINGTON, March 11, 1949—7 p. m.

332. For Merchant. Urtels 61 Mar 9 from Taipei and 846 Mar 11 from Shanghai. Dept believes you must have certain latitude dealing with problem. If Amb concurs ur views re desirability appointment Sun, you might suggest he approach Act Pres this matter. Seems preferable you not be involved in approach in order avoid prejudice ur position if Chen not replaced.

ACHESON

893.00/3-1449 : Telegram

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

NANKING, March 14, 1949—4 p. m.

[Received March 15—2:01 a. m.]

570. From Merchant. Ambassador concurs Sun and will take earliest opportunity indicate to Acting President his confidence Sun's qualifications. Sun due Nanking within few days. Notwithstanding

angle reported Embtel 572, March 14,⁸⁸ I believe prospect promising. I will return Taipei March 17 or 18 via Canton (refDeptel 332, March 11). Pending clarification governorship, I do not contemplate opening negotiation unless you instruct me to contrary. [Merchant.]

STUART

893.01/3-1449 : Telegram

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

NANKING, March 14, 1949—11 p. m.
[Received March 15—2:03 a. m.]

572. Consul General Krentz, while en route US home leave, brought me secret message from Governor Chen Cheng to effect that if US Government was interested in Sun Li-jen becoming governor of Taiwan this could be accomplished by appeal from me to Generalissimo not to block such transfer (see Embtel 417, February 18.⁸⁹) While it is surprising and gratifying that Chen Cheng should bother confide this message about possible successor, it may prove that change cannot be made Taiwan without Generalissimo's concurrence, at least tacit.

Sent Dept 572, pouched Taipei.

STUART

893.00/3-1949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, March 19, 1949—noon.
[Received 2:55 p. m.]

75. Belief here is that Chen would not have risked going Nanking unless (1) he was fully assured continued control of Taiwan or (2) he was prepared withdraw voluntarily with or without Gimo's approval. Recent Executive Yuan order concentrating control all Taiwan military and civil organizations in Chen believed last minute move by Sun Fo.¹ New powers if recognized by various heads here would include air force, navy, General Sun's trainee troops plus civil organization holding Nationalist gold reserves and customs. With present concentration military, material and gold, Chen's strength equals or surpasses Acting President's. Chen, however, has issued no implementing directives. If this great authority were to pass to sources loyal to Li Tsung-jen and not Gimo, authority of CC planning would have failed and Chen would have betrayed many, which appears contrary

⁸⁸ *Infra.*

⁸⁹ Vol. VIII, "Political and military situation in China", chapter II.

¹ President of Chinese Executive Yuan from December 1948 to March 1949.

his nature. [The fact that?] he has gone to Nanking now, where Ho ² has power, makes me believe he has left a lieutenant here ready keep control by force if Chen's replacement is tried. Such man can only be General Peng or General Sun Li-jen.

Just informed Sun has received order from Nanking and will comply if enforced but expects revise.

Sent Department 75; repeated Nanking 68.

EDGAR

894A.01/3-2349 : Telegram

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

SHANGHAI, March 23, 1949—5 p. m.

[Received March 23—5:43 a. m.]

981. Mayor Wu ³ has again urged on me in long conversation American aid to bolster up last ditch Nationalist stand on Taiwan.

Sent Department, repeated Nanking 577.

CABOT

894A.01/3-2349

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] March 23, 1949.

During a conversation this afternoon with Mr. Ford,⁴ who called at my request, I informed him that the Department was interested in the activities of the Formosan League for Re-emanicipation and had instructed the appropriate consular offices to keep in touch with League representatives and report to the Department on their activities. I pointed out that some of the League leaders were in Hong Kong and asked if the British Government had received any information regarding the League and its aims.

Mr. Ford replied that he did not know of the existence of the League but that he would inquire of the Foreign Office in this regard.

I stated that we were, of course, interested in Formosa and the activities of the League in relation to this general problem, pointing out that it would be helpful to know to what extent the Communists might have succeeded in penetrating the organization and its relation to the Chinese Government. I added that it would be helpful to have some indication of British thinking in regard to the question of

² Gen. Ho Ying-chin, former Chinese Minister of National Defense, succeeded Sun Fo as President of the Chinese Executive Yuan.

³ K. C. Wu, Mayor of Shanghai.

⁴ J. F. Ford, First Secretary of the British Embassy.

Formosa. When Mr. Ford said that there were some British officials who advocated taking over the island in view of its strategic importance, I asked if it was contemplated that the British Navy could or would be used for such an operation. He immediately expressed the opinion that the United States was in a much better position to carry out such an operation. In answer to my inquiry regarding the Chinese reaction on the mainland to such action, he said that in his opinion it would be fatal to the position of any foreign power in China which used such means to detach Formosa from China.

Mr. Ford concluded the conversation by stating that he would report the foregoing to the Foreign Office and seek an indication of British thinking on the subject. I asked that the matter be treated as highly confidential since the problem of Formosa was naturally a very delicate one.

893.50 Recovery/3-2349 : Telegram

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

NANKING, March 23, 1949—8 p. m.

[Received March 24—6:28 a. m.]

639. From Merchant. Arrived Nanking March 22, plan return Formosa March 29. ReECAtO 1169 and 1173,⁵ I assume contingent funds for any Formosan support program decided upon are provided for elsewhere than ECA China residue. 17,000,000 plus some JCRR⁶ inadequate for amount contemplated which roughly will require reconstruction 20,000,000 plus at minimum equivalent amount for fertilizer or consumers goods as offset local currency expenditures accompanying capital projects. On above assumption and only in belief division ECA residue as suggested refuels cannot cover effective Formosan program and at same time hold mainland economy together during period peace negotiations, I concurred Embtel 638, March 23.⁷ [Merchant.]

STUART

894A.01/3-2349 : Telegram

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

NANKING, March 23, 1949—8 p. m.

[Received March 24—6:50 a. m.]

640. From Merchant. Looking forward and even assuming decent government established Formosa receiving US economic support,

⁵ Neither printed.

⁶ Joint Committee on Rural Reconstruction.

⁷ *Post*, p. 633.

major decision US may well later face is what advice then to give Governor if Communist dominated coalition emerges on mainland and makes evident its intention retain Formosa as integral part China.

If we encourage separation Formosa and Governor acts accordingly, subsequent more difficult question is what support will [we] be prepared to give Governor if coalition government decides contest separation. Communist radio is already referring to US imperialistic designs on Formosa and to its impending "liberation".

I believe if foregoing situation developed, we could not intervene directly by military means without inflaming vast majority mainland Chinese as well as some Formosans and grievously injuring US moral position all Asia. Consequently we could not advise or encourage Governor to declare separation unless sure he possessed, as seems unlikely, force necessary for successful resistance. Even to encourage semi-autonomy in National Government framework would presumably invite replacement Governor by Communist stooge backed by force.

Though my knowledge limited, my impression is that Formosan independence groups currently are disunited, politically illiterate, imperfectly organized and in general worthy little reliance. There is no doubt that general and growing discontent exists but effective leadership and organization are still absent.

On above reasoning our choice would appear to be between UN sponsored or otherwise joint intervention or alternatively contenting ourselves with temporary holding operation under which by economic and diplomatic support we contributed to improvement economic level and quality government on Formosa, thereby reducing chance lasting Formosan acceptance Communist ideology. It would seem however only matter of time before mainland Communists or coalition government installed own iron fisted regime, particularly in view Formosa's assets in form of food, gold, foreign exchange, potential and strategic location.

Foregoing suggests possible desirability ascertaining British, French and possibly Australian and Indian attitude toward chance effective UN future move or their willingness share onus joint forceful action with regional UN framework to secure and support independent status Formosa if mainland Communist-dominated government emerges and moves to control island. In any event holding operation seems amply justified though carrying no guarantee final success (reDeptel 30, March 2 to Taipei and related messages). [Merchant.]

STUART

893.50 Recovery/3-2449 : Telegram

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

WASHINGTON, March 24, 1949—7 p. m.

389. For Merchant from Butterworth. Contingency funds for Formosa are included in current request for authority to spend balance unexpended by Apr 3 of Section 404(a) China Aid Act⁸ which Dept supporting in large measure for that reason. Furthermore public justification of separate appropriation for Formosa would in present circumstances produce variety of complications including supplying Russian and Chi Communists with irredentist issue directly attributable to US "imperialism". From this morning's Executive Session Senate Foreign Relations Committee it evident far as that body concerned that except for Formosan situation and feeling on part of few members of Committee desirability going along little further to avoid accusation rug pulling not even this authorization would be supported. Therefore follows that every reasonable attempt must be made to bring Formosan situation to a head sooner rather than later and that US aid will at least initially be limited to say \$17 million capital reconstruction plus certain amount commodities particularly fertilizer and that local separatist regime will have to bestir itself as regards external trade particularly with Japan and if necessary make use gold supplies with no further grants-in-aid in immediate offing. This will no doubt entail cut backs in ECA operations mainland and in my opinion particularly in cotton which I regard as indefensibly large, e.g. Central Bank applied to Federal Reserve for using dollar balances to purchase gold for use GY^{8a} purchase operations Shanghai. If in unlikely event mainland negotiations move quickly and result in coalition Govt and correspondingly Formosan situation felt favorable no reason why funds under currently sought authorization should not be concentrated on Formosa during life of Act.

Nanking's 640 Mar 23 will be replied to separately. [Butterworth.]

ACHESON

894A.01/3-2649 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, March 26, 1949.

[Received March 26—1:46 a. m.]

85. In local speech former Foreign Minister Wang Shih-chieh stated Taiwan is "restored territory", not "military occupation area",

⁸ Approved April 3, 1948; 62 Stat. 158.

^{8a} Gold Yuan.

and China has absolute sovereignty re foreign and domestic matters. Shimonoseki treaty⁹ was nullified by Chinese 1943 [1941?] war declaration, Taiwan legally reverted to China then and was physically reacquired from Japanese Army at war's end. Warned against other future direct or indirect attempts at imperialistic control.

Sent Nanking 78, repeated Department 85.

EDGAR

894A.01/3-2349 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, March 30, 1949—6 p. m.

51. For Merchant. Urtel 640 Mar 23. Dept appreciates well reasoned presentation contained reftel.

NSC decision (37/5¹⁰) quoted Deptel 37 Mar 9 to Taipei requires approach Governor Formosa when situation develops to point where we know governing groups US will have deal with on Formosa as set forth paras 1 and 2 NSC 37/2 Feb 3 (Deptel 30 Mar 2 to Taipei). Delay making such approach involves risk further deterioration situation and possible inclusion Formosa in deal with Commies on mainland. There is presently no thought US Govt would act unilaterally separate Formosa from mainland by milit means and in event likelihood failure prevent Commie domination Formosa by pol and econ means only recourse would be action through UN. Request for such action should come from Chinese governing authorities Formosa or possibly from Formosan independence groups or from both. Initiation such action in UN could most appropriately be taken by Philippines. Weakness Formosan independence groups fully recognized, but participation such groups would be *sine qua non* in arrangements resulting from UN action. And their support of UN action would be desirable even though appeals to UN came from Chinese.

As you aware we have made known confidentially to Philippine authorities our general interest in Formosa without, however, any indication action we might be prepared to take. Dept has also put out feelers to British Emb Washington with request for indication Brit thinking on subject. You will be informed of results this approach.

ECA program only means aid autonomous Formosa at present although possibility further assistance might be furnished under Pres Four Point Program and through milit aid modest proportions under over-all fon milit assistance program now being drawn up which ex-

⁹ Treaty of peace between China and Japan, signed April 17, 1895, *Foreign Relations*, 1895, pt. 1, p. 200.

¹⁰ March 1, p. 290.

pected include general funds not committed specific countries. However, as you indicate, despite our aid developments may make impossible continuing autonomous status island in face expected Commie attempts take over such valuable area. In that event only recourse would be action through UN prior development situation where Comies could successfully seize island either by internal stratagem or by external attack. Possibility former would, of course, be ever present threat and thus make difficult UN action in time save situation.

In light foregoing Dept tends agree ur view action in UN may eventually be desirable and time may come, perhaps sooner rather than later, when it would be in order suggest to Governor Formosa appeal for UN action.

In view foregoing has Gen Chen Cheng's recent visit Nanking and increased powers Formosa recently granted him caused any change ur previous view (urtels 846 Mar 11 from Shanghai and 570 Mar 14 from Nanking) time not yet ripe approach Governor Formosa along lines NSC 37/2 Feb 3?

ACHESON

893.00/3-3149 : Telegram

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

NANKING, March 31, 1949—3 p. m.

[Received March 31—8:54 a. m.]

680. From what we have been able to learn of visit of Chen Cheng to Nanking last week it appears he came to study the situation under Li Tsung-jen and to come to terms with his old enemy Ho Ying-chin. Theoretically, at least, new Premier could remove him from governorship Taiwan. Chen also hoped win over some members of increasingly powerful Legislative Yuan. In general, it would appear his purpose was political fence-mending under new regime, and that he departed moderately satisfied.

Reported Chen has no faith in negotiations for peace and believes CCP inexorably determined to support world revolution. He is reported to have announced here that if peace talks fail he would declare independence of Taiwan. Many practical difficulties in such course, as gas for Air Force and Navy without American backing, were, we were informed, pointed out to him. Contrary to earlier impressions, appears from Chen's Nanking visit that he likes his job, believes he is performing ably as Governor and has no desire to relinquish it.

Sent Department 680, repeated Taipei 30.

STUART

Department of Defense Files

Memorandum by Rear Admiral Sidney W. Souers to the National Security Council

WASHINGTON, APRIL 4, 1949.

Subject: The Strategic Importance of Formosa

References: A. NSC Action No. 189
 B. NSC 37/5^{10a}
 C. NSC 37/3^{10b}

Pursuant to NSC Action No. 189-c, the Secretary of Defense was requested to obtain from the Joint Chiefs of Staff a clarification of their estimate of the strategic importance of Formosa, as contained in NSC 37/3, with specific reference to confirmation of the Council's interpretation that this estimate means that overt military action by the U.S. in Formosa is not recommended either at this time or under any foreseeable future circumstances.

The enclosed reply from the Secretary of Defense is circulated herewith for the information of the National Security Council. No further action on the enclosure is contemplated unless requested.

SIDNEY W. SOUERS

[Annex]

Memorandum by the Secretary of Defense (Johnson) to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, APRIL 2, 1949.

Subject: The Strategic Importance of Formosa

References: A. NSC Action No. 189c
 B. Memo from Executive Secretary, NSC,
 Subject: The Strategic Importance of Formosa,
 dated 4 March 1949

1. Pursuant to NSC Action No. 189c and in accordance with your memorandum of 4 March 1949, the Joint Chiefs of Staff have considered the request for confirmation of the National Security Council's interpretation of the Joint Chiefs of Staff's estimate regarding the use of overt military action by the United States in Formosa.

2. The National Security Council's interpretation that this estimate means that overt military action by the United States in Formosa is not recommended by the Joint Chiefs of Staff, either at this time or under any foreseeable future circumstances, is generally correct, subject to the following considerations.

^{10a} March 1, p. 290.

^{10b} February 11, p. 284.

3. The Joint Chiefs of Staff do not believe that the strategic importance of Formosa justifies overt military action at this time or in the event that diplomatic and economic steps prove insufficient to prevent Communist domination so long as the present disparity exists between our military strength and our global obligations. However, it should be pointed out that there can be no categorical assurance that other future circumstances extending to war itself might not make overt military action eventually advisable from the overall standpoint of our national security.

LOUIS JOHNSON

893.50 Recovery/4-649 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 6, 1949—8 a. m.
[Received April 6—5:10 a. m.]

97. From Merchant. Grateful Deptel 51, March 30. Interviews last week of Griffin-headed ECA group¹¹ with Governor Chen, coupled with contents Taipei's 93 of April 1¹² and Embtel 680 to Department March 31, unhappily strong urge Chen will remain. Apparently Chen did not obtain in Nanking specific confirmation sweeping powers delegated him by Sun Fo as latter resigned office. In any event he gives impression confidence his tenure. While Li may only have deferred action on his expressed intention to replace Chen with Sun, I reluctantly conclude Chen meets description paragraph 1, section 37/2,¹³ and particularly in light note of urgency implicit in Deptel 389, March 24 to Nanking, I believe we must deal with him.

Accordingly I recommend my opening negotiation with Governor Chen along following lines:

(1) General statement in sense paragraph 2, section 37/2 and obtaining maximum related assurances but giving no hint any aid beyond 17,000,000 JCRR and fertilizer already scheduled;

(2) Further pave way for detailed specification by ECA of coordinate self-help measures and facilities ECA will require for effective reconstruction and JCRR programs. Self-help measures would be stated by ECA to include *inter alia* emphasis on exports with vigorous efforts secure control foreign exchange earned and certain anti-inflationary monetary actions by Bank of Taiwan along lines Paul Parker's¹⁴ survey (reference Shanghai's Toeca 1255 of March 25¹²).

¹¹ R. Allen Griffin was Acting Chief of the ECA China Mission.

¹² Not printed.

¹³ February 3, p. 281.

¹⁴ Paul C. Parker, acting Treasury representative in China and financial adviser to ECA China Mission.

I believe Chen will subscribe enthusiastically but act within limits dictated by his loyalty to Gimo and friends. Accordingly he may not push too hard for use Nationalist Government gold stocks in Formosa, reliably reported about 2,000,000 ounces. Presumably he will protect C-C clique in sinecures and easy pickings and otherwise govern in traditional Chinese style. Best estimate Chen will refuse to accept as applicable to Formosa the authority of any Communist-dominated coalition on mainland which may emerge from peace talks. My doubts remain nevertheless regarding his ability to provide sufficiently enlightened government to satisfy Formosan aspirations and provide popular native base necessary for effective resistance.

If authorized proceed as recommended part 2 above, I will concert in advance with Griffin who returns from Japan mid-week. ECA follow-up should be prompt, specific and in accustomed role tough talk regarding performance.

Meanwhile Parker and I have worked out with ECA and Tarring of J. G. White tentative program for best use 17,000,000 plus JCRR activities and oncoming fertilizer. Admittedly sum is insufficient for enduring substantial improvements particularly in absence any assurance continuity. However, if Japanese equipment prices for reconstruction projects afford hoped for savings program, coupled with vigorous provincial monetary and economic actions, should retard inflation and provide stopgap enabling later examination of justification for continuing US economic support. But there will be no margin for error or contingencies.

Dimensions and nature overall program (requested in paragraph 5, section 37/5¹⁵) are contained in Shanghai's ToECA 1255 of March 25, supplemented by Parker's memo sent Washington from Shanghai April 3 or 4.¹⁶ However, Parker now estimates and I concur cost such effective program somewhat less than ToECA 1255 calculates. [Merchant.]

EDGAR

893.00/4-649 : Telegram

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

WASHINGTON, April 7, 1949—5 p. m.

607. For Merchant. Before authorizing action requested Taipei's 97 Apr 6 Dept wishes you have benefit of reappraisal in light of info contained in Nanking's 716 Apr 6 to Dept¹⁷ (which it is requesting

¹⁵ March 1, p. 290.

¹⁶ Latter not found in Department of State files.

¹⁷ Vol. VIII, "Political and military situation in China", chapter III.

Nanking to rpt to you) and fact that current legislation may well emerge from House-Senate conference with termination date Feb 15, 1950 or at any rate Dec 31, 1949. Final Congressional action this legislation not expected until just before Easter.

For your info ECA has already approached Dept informally as to possibility of diversion for mainland commodity program of whole or part of \$17 million earmarked capital reconstruction Formosa. Dept referred NSC decision and rejected suggestion.

Your views would be appreciated.

ACHESON

Executive Secretariat Files : NSC 37 Progress Report

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] April 8, 1949.

Subject: Implementation of NSC 37/2¹⁹ and NSC 37/5.²⁰

Pursuant to NSC Action No. 123, October 6, 1948, the following progress reports on the implementation of NSC 37/2, "Current Position of the United States with Respect to Formosa", and NSC 37/5, "Supplementary Measures with Respect to Formosa", are submitted for the information of the Council:

In accord with paragraph 5 of NSC 37/5, the Department has detailed Mr. Livingston T. Merchant, Counselor of Embassy at Nanking, to Taipei, where he arrived in late February. Shortly after his arrival the Department communicated to him the decisions reached in NSC 37/2 and NSC 37/5 with a request for his views regarding the timing of his approach to the Governor of Formosa, as set forth in paragraphs 1 and 2 of NSC 37/2. In reply to the Department's request, Mr. Merchant reported that he did not consider the time ripe for an approach to the Governor of Formosa in view of the possibility that the incumbent might be supplanted by General Sun Li-jen, an American-educated officer considered to be more competent than the present Governor.

In the meantime discussions of the problem of economic aid for Formosa were held on March 10²¹ between the Secretary of State and the Administrator for Economic Cooperation and the following understanding was reached:

"Plans will be laid for a program of economic support to Formosa, including proposed capital expenditures for industrial replacement and reconstruction, which should be brought as near to the point of

¹⁹ February 3, p. 281.

²⁰ March 1, p. 290.

²¹ See memorandum of March 10, p. 630.

consummation as feasible without additional allocation of funds. The fertilizer distribution program now planned, together with some rural reconstruction activities, will be carried forward. No capital expenditures will be authorized unless and until the political circumstances are judged to be propitious for an all out economic program on the island. However, it is not considered that the time has yet come to institute such a program."

DEAN ACHESON

893.50 Recovery/4-949 : Telegram

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

SHANGHAI, April 9, 1949—10 a. m.

[Received April 9—2:40 a. m.]

1130. From Merchant. Believe National Government in genuine financial death throes. Disturbed by implications (reference Shanghai's Toeca 1316, April 8²²) Chinese Government expressed desire forego any assistance to Taiwan in favor neck or nothing gamble of remaining ECA funds on Shanghai gold market and silver troop pay. Proceeding Taiwan as planned will be revelatory but unavoidable.

Proceeding Nanking April 10 with Griffin and Parker to discuss financial crisis with Ambassador. Weather permitting, will return Taiwan April 11 and, assuming authorization requested negotiate by then received, will proceed at once, supported secondary stage by Griffin and Parker.

Inclined credit report Sun's string played out. Believe many Kmt personalities including K. C. Wu and possibly T. V. Soong²³ will shortly converge on Taiwan. [Merchant.]

CABOT

893.00/4-1049 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 10, 1949—9 a. m.

[Received April 10—2:14 a. m.]

108. [For] Merchant and Butterworth. T. V. Soong here. He tells me on Generalissimo's order to find political, economic, military solution to preclude Communist takeover. Asked my advice. Have stalled. You may decide immediate return or request my instructions.

Sent Department 108, repeated Nanking 98.

EDGAR

²² *Post*, p. 755.

²³ Former President of the Chinese Executive Yuan and Governor of Kwangtung.

893.00/4-1049 : Telegram

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

NANKING, April 10, 1949—noon.
[Received April 10—4:23 a. m.]

741. We learned from Sun Li-jen before his return Taiwan that he was well received by Generalissimo at Chikow. (See Embtel 715, April 6 to Department,²⁴ repeated Canton 227, Shanghai 341, Taipei 35.) Latter told him to go back to Taiwan and keep up his good work training Chinese Army. When General Sun took his leave, Generalissimo showed him special courtesy, amiability, by accompanying him some little distance from house.

Acting President has suggested indirectly that if Americans agree General Sun would be better Governor Taiwan than Ch'en Ch'eng we might usefully approach Wu Chung-hsin²⁵ who admires Sun (they come from same hsien headquarters) and who, as Department knows, has Generalissimo's confidence. Apparently Li Tsung-jen would like any suggestion to Generalissimo of change Governorship Taiwan come from some quarter other than himself. Obviously his suggestion not being pursued.

Sent Department 741, repeated OffEmb Canton 238, Shanghai 355, pouched Taipei.

STUART

894A.00/4-1149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

Taipei, April 11, 1949—9 a. m.
[Received April 11—1:34 a. m.]

110. At his request called 9th on T. V. Soong, who received me alone and abruptly stated his mission at Generalissimo's order is to find political, economic, military formula to preclude Communist takeover: Taiwan economy must be restored, island must not be dragged down to mainland level, Taiwanese welfare must be above anything Communists can offer, claimed and indicated wide knowledge local conditions, has brought survey group, will stay about one week.

Replying to request my opinion and recommendations, I merely referred Governor Chen's three-point program, (1) strengthen not separate Taiwan yen, (2) retain 40% export proceeds, (3) solve mainland remittance problem by goods imports, not currency credit. Said Chen appeared satisfied Nanking visit results. Soong criticized each solution, said Chinese military still 50 years behind times. Taiwan needs simple

²⁴ Not printed.²⁵ Adviser to the President of the Republic of China.

clear-cut bold solutions. Had not yet taken time consult Chen Cheng except few minutes at airport. Proposed Taiwan representation on financial board to instill confidence. I mentioned local desire elect mayors and magistrates. Soong opposed "synthetic democracy". Cited Legislative Yuan and derogatory of C. Chuang, notorious provincial council head. Criticized nationalization all island industry resulting inefficiency and expressed desire unload.

Asked re military behavior. I cited several news reports. Soong spoke highly Sun Li-jen and said no trouble his troops. Questioned authenticity news report his removal. Mentioned failures Chen Yi, successes Wei Tao-ming.²⁶

Several times indirectly intimated low regard Chen Cheng. I said nothing.

Requested meeting with American official best posted in economics here. I suggested ECA Craig.²⁷ He twice suggested there must be someone else. Replied no. Have delayed Craig meeting till Tuesday²⁸ hoping instructions.

Repeated Nanking 100, OffEmb Canton 10.

EDGAR

893.50 Recovery/4-1149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 11, 1949—5 p. m.
[Received April 11—8: 57 a. m.]

111. From Merchant. Deptel 607, April 7 not seen by me prior despatch my telegram 1130 of April 9 or my letter to Butterworth of April 8.²⁹

Regarding appraisal requested Deptel under reference will be sent soonest.

Reference Taipei's 108, April 10 and 110, April 11, I plan lie low and not now plan to see T. V. in absence contrary guidance. [Merchant.]

EDGAR

893.50 Recovery/4-1249 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 12, 1949—10 a. m.
[Received April 12—5: 22 a. m.]

113. From Merchant. Reference Taipei's 111, April 11, Shanghai's 1130, April 9 and Deptel 607, April 7 to Shanghai. I agree combina-

²⁶ Both previous Governors of Taiwan.

²⁷ Loris F. Craig, head of the ECA office on Taiwan.

²⁸ April 12.

²⁹ Letter not printed.

tion factors requires reappraisal recommendation made in Taipei's 97, April 5 [6].

Communists' understandable *intransigence* at peace table and accelerating collapse mainland economy combine to shorten time for decision by governing group on Formosa. Self-interest Governor Chen Cheng and Generalissimo crowd, now in control, almost certainly will dictate refusal to accept authority any Communist-dominated mainland government. Such action would likewise serve our immediate interest. I do not believe their decision or their chances initially of successful resistance will be affected or improved by promise US economic aid today.

On other hand knowledge (which would unavoidably soon become public) of substantial US aid forthcoming would give Communists new handle to propaganda jug, disappoint Formosans who resent present Chinese authorities and confirm widespread mainland Chinese fears that we have imperialistic designs on Island.

Since first arrival here I have doubted ultimate usefulness US aid to present Governor and his clique. I had hoped his displacement by enlightened Chinese leader would provide setting in which US aid could be effectively translated into direct improvement Formosan's lot. These hopes have not materialized nor do they seem likely to now.

At this moment I see nothing to be gained and much to be lost by approaching Governor Chen with view committing US economic aid beyond routine continuation present modest ECA commodity imports and current slow moving JCRR program. Accordingly I withdraw reluctantly recommendation contained Taipei's 97, April 5 [6] and urge continued deferral and approach to Governor Chen pending further development events on mainland.

Re last paragraph Deptel 607, April 7 to Shanghai and official Nationalist Government request reported in Shanghai's Toeca 1316, April 8.⁵⁰ I recommend up to half prospective ECA 54 million be gradually committed to keep post-June 30 mainland commodity pipeline filled but that 25 million be unostentatiously withheld by Washington against possibility later effective use for reconstruction and JCRR on Formosa. [Merchant.]

EDGAR

123 Merchant, Livingston T.: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 12, 1949—10 a. m.
[Received April 12—3:45 a. m.]

114. From Merchant. Strongly recommend Paul Parker and I be immediately recalled consultation Washington. If recommendation

⁵⁰ For latter, see p. 755.

Taipei's 113, April 12 accepted, no immediate action required here and combined full understanding problems essential for successful operation. Confident Treasury would cooperate for Parker's return with me. [Merchant.]

EDGAR

893.50 Recovery/4-1249: Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, April 15, 1949—5 p. m.

59. For Merchant. Ur tel 113 Apr 12.

1. Dept agrees ur recommendation desirability deferring approach Chi auths Formosa except as indicated below. Since Soong probably has some directive from Gimo and no doubt wishes obtain firm indication US attitude re Formosa, it seems desirable give him some indication US Govt views this subject and disabuse him of some illusions. Dept accepts ur judgment self-interest Chi now in control Formosa primary consideration rather than promise US economic support this stage. Approach to Soong would serve indicate to them their own efforts will be determining factor and US aid can only be supplementary such efforts. Failure establish this point clearly with Chi auths would inevitably result eventual failure US efforts prevent Commie domination island.

2. In view foregoing Dept believes you shld see Soong and make statement along fol lines:

You have noted his conversation with Edgar (Taipei's 110, Apr 11). US Govt has no desire see mainland chaos spread Formosa and would be inclined view favorably question economic aid Formosa shld Chi take steps prevent Commie or coalition govt control island. However in certain quarters there is obviously a misconception of US interest Formosa: for example that US considers island essential link Western Pacific defense chain. US Govt is entertaining no designs on Formosa and does not desire establish bases Formosa. Although it looks with favor on denial Formosa to Commie control, Formosa not of sufficient strategic importance in mid 20th century which has sufficiently moved away from coaling-station strategic concept that there is no question of US employment forces to effect destiny of Formosa. Question US econ aid Formosa inevitably involved with pattern previous US efforts aid China. Certain econ measures indispensable effective contribution Formosan stability: for example availability for current use Formosa substantially all foreign exchange proceeds Formosan exports, limitation Formosan trade with mainland to barter for benefit current consumption Formosa and virtual cessation mainland remittances Formosa, both Govt and private. Unless Chi auths willing and able

measures this nature, external aid wld be of little significance and inevitable result wld be repetition mainland situation. Formosa represents valuable economic assets which could be made self-supporting with efficient admin as example of non-Commie Chi Govt achievement. US Govt has, however, viewed with misgivings recent developments Formosa which give promise repeating mainland pattern. Influx large numbers refugees has exacerbated feelings Formosans and contributed further to instability and thus to opportunity Commie penetration. At present ECA prepared go ahead with fertilizer and JCRR program and it is hoped Chi auths can take measures establish basis for effective econ support.

3. Urtel 114 Apr 12 being made subj separate tel.

ACHESON

123 Merchant, Livingston T. : Telegram

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

WASHINGTON, April 20, 1949—5 p. m.

697. [For] Merchant. Dept sent you its 61 to Taipei Apr 18³¹ principally because Emb had not rptd to you tel referred to therein indicating approaching Communist-Nationalist negotiation crisis.

In acting with respect to Formosan situation Dept is relying on your recommendations at every stage in game. It does not wish to preclude a talk with Soong now if that or any other course of action recommends itself to you for Dept approval. Your views requested.

ACHESON

893.50 Recovery/4-2149 : Telegram

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

SHANGHAI, April 21, 1949—3 p. m.

[Received April 21—3:34 a. m.]

1281. From Merchant. Sufficient doubt my mind re T. V. Soong's motivations and intentions leaves me satisfied over postponement frank talk with him. However, request authority in my discretion to interview him along lines Deptel 59 to Taipei April 15 if circumstances in my judgment so indicate (reference Deptel 697 to Shanghai April 20). Will return Taipei by MA³² plane from Nanking early April 26.

New subject: Tarring of J. G. White has returned from Japan and reports power industrial related equipment available for Taiwan reconstruction requirements at prices and delivery dates approximately

³¹ Not printed.

³² Military Attaché.

one-third less than in US. This should bring J. G. White-screened reconstruction projects within tentative ECA earmarked 17,000,000. [Merchant.]

CABOT

893.50 Recovery/4-2149 : Telegram

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

WASHINGTON, April 21, 1949—4 p. m.

706. [For] Merchant. Authorization sought your 1281 Apr 21 accorded. For your info only, Dept planning meet next week with ECA and Bureau Budget to ensure that Presidential allocation to ECA of authority accorded by recent legislation will properly take into account Taiwan. Have you any suggestions re earmarking beyond \$17 million and JCRR \$8 million?

ACHESON

894A.00/4-2549

Memorandum by Mr. Kenneth Krentz³³ to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] April 25, 1949.

During my visit with General MacArthur in Tokyo last month General MacArthur asked a number of penetrating and informed questions about Formosa. At one point in our conversation General MacArthur misunderstood an allusion of mine to the Chinese army using Formosa as a base. He said very emphatically, "There is no earthly military reason why we (i.e., the United States) should need Formosa as a base. It would be no earthly use to us against our only possible major enemy and certainly they could not utilize it against us."

As you well know, General MacArthur has been quoted by others as expressing opinions quite different from the foregoing. However, this statement was most emphatic and categorical.³⁴

893.00/4-2549 : Telegram

The Secretary of State to the Consul General at Canton (Ludden)

WASHINGTON, April 25, 1949—8 p. m.

177. [For] Merchant. Dept concerned re possible large influx refugees. It is not in position to judge whether it is feasible you discuss this

³³ Consul General at Taipei, temporarily in the United States.

³⁴ Marginal notation by the Secretary of State: "Most interesting. I thought he took the opposite view. D A."

matter with Governor reminding him of his previous stand to limit number of refugees to avoid further repercussions therefrom but if so it is suggested you do so.

ACHESON

893.00/4-2849: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 28, 1949—5 p. m.
[Received April 29—12: 15 a. m.]

129. From Merchant. Dislike advocacy passivity but remain of opinion no approach to Chen wise at this time particularly in light request of Li Tsung-jen to Clark³⁵ that no ECA funds be allocated Taiwan. Any present implication US intentions this direction would be construed as intervention by US in internal conflict for control remnant Nationalist assets forces and authority which seems to me unwise.

ECA fertilizer arriving Taiwan per schedule and wheat and cotton total value circa US half million here or en route which will be sufficient finance local currency expenditures ECA local office, J. G. White group and current JCRR program for next several months.

Edgar and I will informally and indirectly convey to [Chen] Cheng gist Deptel 177 to Canton April 25. Formal approach deemed undesirable particularly in view virtual impossibility Chen refusing entry Yuan members, etc., now coming in by hectic Shanghai shuttle flights. Doubt feasibility arrival great numbers non-rich or non-great by sea. Conflicting rumors troop movements in and out as yet unconfirmable. [Merchant.]

EDGAR

893.50 Recovery/4-2949

The Director of the China Program of the Economic Cooperation Administration (Cleveland) to the Director of the Office of Far Eastern Affairs (Butterworth)

WASHINGTON, 29 April 1949.

DEAR WALT: I am sending you a particularly interesting letter, classified "Top Secret", from Allen Griffin. This letter was apparently written shortly before Mr. Lapham returned to China. It recommends strongly that no action be taken to set up a Taiwan operation under

³⁵ Lewis Clark, Counselor of Embassy in China at Canton.

present circumstances, and giving the present elements with whom it would be necessary to deal there.

I would be interested to know if you are getting similar advice from Livie Merchant.

Sincerely yours,

HARLAN CLEVELAND

[Enclosure]

The Acting Chief of the ECA China Mission (Griffin) to the Director of the China Program of the Economic Cooperation Administration (Cleveland)

SHANGHAI, April 14, 1949.

DEAR HARLAN: OUR cables have, I believe, kept you as familiar as distance permits with the circumstances that are bringing about the deterioration of the Nationalist's side in China. Suffice it to say, that no reform in the evil practices that have undermined the Government has taken place in the Army, the political structure and bureaucracy, or in the financial setup. I have come to the conclusion that no reform has even been possible in the face of the habits and available personalities of the political and military leaders on the Nationalist front. Whether a strong and positive American policy might have changed that condition, if exercised one or two years ago, I cannot say. The evils that have undermined the regime appear to have been fixed in mucilage.

We now come to the field of what is possibly our next adventure—Formosa. Events and circumstances of the past two months, one following another, have convinced me that we should stay out of Formosa so far as any longterm operation is concerned. Unless that Island is so vital to America in a military sense that its occupation by the Communists would have to be denied even by the use of military force, if necessary, it is my opinion that we should leave it alone.

Formosa has become the redoubt of the Gimo's favored elements, the very people whose selfishness, corruption and shortsightedness have destroyed their regime on the Mainland. It is packed with troops, under divided commands that are separately responsible to the Generalissimo. It is the refuge of the closest forces of the Generalissimo, and they control the Island. As time goes on, we will discover that we cannot any more do business successfully with those people in Formosa than we could do on the Mainland.

T. V. Soong, with a substantial staff, is making an investigation of political and economic matters there now. I do not minimize his capabilities, and am prepared to believe that his motives are patriotic.

Nevertheless, I do not see how we can back a Soong plan or regime there and face the political repercussions in China and in America. It all adds up to Lapham's policy cable on Formosa ³⁶ which he sent in to you during the first week in February. Unless American policy toward that Island can be positive without any question of a doubt—and military if needs be—then ECA should not risk a great failure there in promoting the industries that are controlled by a handful of men, and that will be operated for their benefit.

Livie Merchant has been working in that field for some weeks, and we have together discussed this problem at least once a week, either in Formosa or here. I have reason to believe that he agrees with this conclusion. At a meeting with the Ambassador and his staff, including Merchant and Clark, last Sunday in Nanking, the consensus was that we had better stay out unless we are *required* by the highest policy to get in. At least there is no point to entering this field in a hurry. We have our fertilizer there now, and we can undertake some reasonably conservative rural reconstruction operations. Such undertakings do not commit us deeply and will give further opportunity to analyze the Formosa problem. I strongly advise that we do not go further than that.

Sincerely yours,

ALLEN

894A.00/4-2949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 29, 1949—11 a. m.

[Received 7:44 p. m.]

132. Developments on mainland heightened air of expectancy here. Price flights and merchant reluctance to sell perturb man in street. Rumors of all sorts rife. Smaller officials express concern over future supplies and markets and general local nervousness. They and local press anxiously expecting abler action to halt economic deterioration and stabilize island economically and politically. My comings and goings closely watched and reported. C. K. Yen ³⁷ believes time ripe for abrupt economic reform and commercial reorientation (see my next telegram). However, encountering difficulty with Governor Chen who lays economic troubles to activities of "evil" persons and prefers use military edicts for forceful suppression. K. C. Wu now here from Shanghai has respect of and believed great influence over Governor, thinks in C. K. Yen terms but fears autonomous moves now might cause Legislative or Control Yuan reprimand or even attempt replace

³⁶ Not found in Department of State files.

³⁷ Finance Commissioner of Taiwan.

Chen, thus further confusing situation and possibly forming two-camp tendency here. Says action must await more complete mainland disintegration. Groundwork meantime being laid.

Talks already under way with Hong Kong for trade development. Expect early approach to SCAP by local authorities re expansion two-way trade.

Sent Department 132; pass Nanking 122, Off Embassy Canton 18.

EDGAR

893.50/4-2949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 29, 1949—3 p. m.

[Received April 30—9:42 a. m.]

133. Finance Commissioner Yen yesterday gave me unexpected 40-minute picture his economic and financial planning, producing statistics, charts, et cetera, asked comment, advice. Says conferences on details are daily. Governor hastened return from south due emergency situation.

Province has here in addition to national reserves over 2 million US gold, et cetera, backing and 5 million credit in Japan. Trade development 1947 and 1948 encouraging and expects favorable balance 34 million US 1949 from larger sugar export with subsequent greater emphasis rice culture. Saw little hope Oolong tea or camphor. Proposes make local currency freely convertible Jap occupation dollar to assure stability and encourage private Jap trade but cannot touch national gold for purely provisional purposes but its conversion to pay soldiers here in local currency would add to hard reserve. All above would permit later but early free convertibility US dollar.

Fully aware effect loss Shanghai as import-export market and entrepot. Says trade with China absolute necessity in addition good Jap market. Would divert from Shanghai to Fukien to Kwangtung as Communists advance. Also already negotiating British use Hong Kong as entrepot for later trade with Communist China. Trying get Governor make approach Tokyo but having difficulty due confusion Governor's mind details SCAP trade practices. Also interested Manila but doubts volume. Desires discontinue government-to-government deals, encourage private trade use local bank clearings, retaining only minimum import control to insure receipt island needs. Hopes this will stimulate local business and reduce Taiwanese opposition.

Yen and Bureau directors seeking Government's approval remove recording deficits like transport, utilities, provincial corporations and cut number excess Government employees. Governor reluctant believe

low rates necessary to people's welfare. Governor also ambitious industrialize island, unconvinced inflationary result, prefers industrial equipment imports to consumer goods and wants price controls, rationing, police measures. "Narrow and inflexible mind", Yen expects eventual conversion but emphasizes need of patience.

Yen convinced useless attempt get outside support now but hopes later by development self-help. Says ECA could aid greatly but own program can start alone.

Sent Department 133, repeated Nanking 123, OffEmb Canton 19, Shanghai 115.

EDGAR

894A.00/4-2949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, April 29, 1949—7 p. m.
[Received April 30—12:27 p. m.]

134. K. C. Wu during call on me said China must make success of Taiwan. Freely criticized Kmt and said errors must not be repeated here. Problem is economic, not military. Said working toward elimination mainland carpet baggers. Cited usual advantage of civilian government but emphasized present importance man with Chen's military prestige: although narrow reactionary, stubborn also sincere, honest, clean. Willing hear advice, needs liberal civilian advisers. Heeds Wu.

Wu apparently excellent health [and] spirits, says he will stay indefinitely. Has discussed garrison complement with Governor and is urging retention only four divisions, i.e., two armies, sending rest to China. Supports autonomy but recommends one- to two-month delay.

Offered self as channel to Governor Chen for any matters best not direct. Requested later opportunities discuss local situation and developments.

Sent Department 134, repeated Nanking 124, OffEmb Canton 20, Shanghai 116.

EDGAR

894A.01/5-249 : Telegram

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

CANTON, May 2, 1949—6 p. m.
[Received May 3—9:31 a. m.]

Cantel 310. On May 2, P. Huang, of Formosan League for Re-Emancipation, called at Embassy office and stated that he had moved

Canton for time being because Formosan Communists Hong Kong were source danger his personal safety. In course of conversation, he stated that general groups, including C-C clique of Kmt, Democratic League, KmtRC³⁸ and Formosan Communists, had all, in recent months, approached him in effort secure adherence Formosan League their separate organs and had made attractive offers which he refused to discuss with them. He said that he was particularly concerned that Formosan Communists were rapidly gaining strength, for they were currently in receipt large amounts weapons and military equipment smuggled Taiwan from Japan. He also said that Kmt troops Taiwan were becoming restive due activity Communist forces here, so that their loyalty could not be counted on. He concluded by saying that the US should make its intentions toward Taiwan, and particularly its support Formosan independence, clear in order that the island might be saved from communism. He also said that he would like revisit Japan soonest possible.

Interviewing officer responded to above by expressing general interest in happenings Taiwan. Officer felt Huang probably prevaricating when he stressed attempts various groups enlist his support and obviously sincere in his desire commit US to his support.

Sent Department; pouched Hong Kong, Taipei.

CLARK

893.00/5-349: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 3, 1949—11 a. m.

[Received May 3—4:58 a. m.]

139. From Merchant. RefDeptel 177, April 25 to Canton. Through Dr. Wu, who has Government's ear, Edgar and I have made clear belief further influx mainlanders would prove political health and economic liability to Formosa.

Relative aircraft arrivals recently tend indicate Canton and Hong Kong preferred over Taipei as haven by Shanghai refugees whose wealth, position enable air exit.

Wu stated flatly no troops left Formosa for mainland; some but "not substantial numbers" from Shanghai came and coming here. [Merchant.]

EDGAR

³⁸ Kuomintang Revolutionary Committee.

893.50 Recovery/5-449: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 4, 1949—2 p. m.

[Received May 5—1:15 p. m.]

141. From Merchant. Since March I have recommended delay in committing US economic aid to present government based on timing considerations.

Today the rapid development of events on mainland necessitates re-appraisal situation Formosa. I now believe revision of US policy as laid down in NSC 37 series is indicated rather than mere delay in its execution.

With collapse of peace talks, virtually unopposed crossing of Yangtze, fall of Nanking and imminent loss of Shanghai, any united Nationalist military resistance to Communists appears improbable. Any resistance seems almost certain to be provincial or regional regardless of outcome showdown between Li Tsung-jen and Generalissimo for clear title as President disintegrating Republic.

Insofar as Formosa is concerned there emerges from these following factors bearing directly upon US interests:

1. It is reasonable assumption that present Governor or any replacement whether appointed by Gimo or Li will elect to resist authority mainland Communist government and build up Island as military bastion.

2. Foreign exchange in future generated by exports and Nationalist gold pot on Island will become available to it.

3. Abrupt severance from Formosa's mainland targets and supply sources, coupled with recent arrivals of economically nonproductive refugees, will further feed inflation which has gained headway in past month.

4. With transfer to Formosa still in process of considerable numbers of troops from Shanghai area, it can be assumed that Island's defense will be weakened, not strengthened by added economic burden and by increased chance of sell-outs to Communists by individual commanders.

5. Despite encouragement mainland disintegration might be expected to provide, there is no new evidence that local independence groups are sufficiently numerous, well organized, well armed and well led to knock out garrison and successfully establish anti-Communist pro-US native Formosan government although general deterioration may soon result widespread unrest and isolated flareups.

Whereas month ago possibility existed Formosa might become autonomous and be run for benefit its people by enlightened governor, it is now almost certain that under either Generalissimo or Li control it will be developed as a fortress which is not compatible with rational eco-

conomic development of Island nor application measures necessary to secure popular support and political development of Formosans.

Entirely apart from question its military security from without, Formosa cannot now be turned into welfare laboratory without far larger subsidy than US has so far considered. New and powerful forces of economic deterioration are at work. Even with massive aid there is little chance governing group with its attitudes and available technical brains could effectively and wisely use such aid. American advisers or a large ECA mission could not compensate for these deficiencies. The US would have to exercise direct authority commensurate with any responsibility it assumed for Formosa's economic well being. That would be a large order and would have to be skillfully presented in order to avoid effective attack on US by Communist propaganda throughout Asia.

On other hand, Formosa can be run as a fortress on a siege basis for a considerable period. If it worked out, our strategic objective would be protected unless and until its governor generals sold out to the Communists. Against latter contingency I see little we can do.

I believe decision to hold out will rest on governing group's estimate of (1) reliability of troops on Island and adequacy strength and supplies to repel any assault from mainland; (2) ability to suppress any native uprising; and (3) ability Formosa to continue economically to support regime's establishment on Island.

US economic aid would not affect (1) above.

Re (2), it might reduce over period of time incentive of Formosans to revolt. It is more likely, however, that the marginal beneficiaries of US aid would be governing groups and military. Re (3), control of exchange and gold pot should enable Island to finance its needs out of capital for 1 or 2 years or possibly longer. Viewed in concept of Formosa's total resources as aid would really amount to subsidy of military on Island.

The liabilities, however, which we would assume for economic aid of doubtful utility to either Formosan or our own interests are considerable. First, we would give Communists resounding irredentist tub to thump on mainland and throughout southeast Asia. This would not only be effective as attack on US but would embarrass any effort our part to hammer on Soviet steals from China. Second, if having given aid we fail and Island is lost to Communists, we have strengthened it for latter's benefit. Finally, we use US resources with slight hope of strategic return.

The foregoing argument rests on the assumption that it remains US policy (1) not to provide military forces for defense of Formosa, and (2) not to assume governing responsibility over Formosa through

unilateral occupation. Incidentally *Amethyst*³⁹ incident suggests that show of force against Communists would prove futile unless backed up by presence overwhelming force and willingness to use it if challenged.

My conclusion is that US should abandon contemplated ECA reconstruction program on Formosa. I also recommend against substituting therefor any ECA commodity import program beyond one of modest size described below.

It is difficult to accept this negative conclusion. There are, however, certain actions which I believe we can and should take, among which are:

1. Maintenance strong CG⁴⁰ staff to encourage Government in resistance and liberal rule.
2. Continued discreet contact independence leaders as long shot.
3. Vigorous JCRR program financed by fertilizer imports.
4. Persuade Government employ and immediately utilize J. G. White as industrial engineering adviser.
5. Extend Washington consultations with other nations concerned with view to place case before UN on short notice if need be. [Merchant.]

EDGAR

893.50 Recovery/5-449 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 4, 1949—4 p. m.
[Received May 7—4: 57 a. m.]

142. From Merchant. There is an alternative to policy relative inaction Formosa which is result of acceptance reasoning Taipei's 141, May 4. In brief outline alternative would involve:

1. Proceed with reconstruction program submitted by J. G. White. Cost, say 20 million US.
2. Step up JCRR program reaching into every hsien and under imaginative director. Cost, say 5 million US advanced by fertilizer imports.
3. Commodity import program concentrated on cotton cloth, additional fertilizer, POL,⁴¹ etc. Cost, say 10 to 20 million US.
4. Grant for purchase munitions and military supplies to remedy probable shortages and misfits in present stockpile. Cost, say 20 million US.

Total cost above circ 60 million US.

³⁹ H.M.S. *Amethyst*, a British naval ship which had been fired upon and disabled by Chinese Communists on the Yangtze at time of capture of Nanking.

⁴⁰ Consulate General.

⁴¹ Petroleum, oil, lubricants.

Above with proper management could support military establishment of size necessary for efficient service and lift standard living average Formosan, say 10 to 20 percent.

Quid for above *quo* would be :

1. Long-term lease to US Navy and to US Air Force, such bases as JCS determined of value.

2. Placement Sun Li-jen in command all forces, all services Chinese military on Formosa personnel to be screened by him with intent return to mainland one-half to two-thirds of total now here.

3. Employment by Govt of firm J. G. White as engineering advisors and industrial operations supervisors.

4. Employment by Bank of Taiwan first class financial economist such as Cyril Rogers⁴² now of Central Bank.

5. Understanding that all US economic aid would cease forthwith if after due consideration of facts US Govt decided advice of advisors described above was wilfully disregarded.

I realize above would require reversal basic policies (1) unwillingness commit US military forces Formosa and (2) unwillingness accept onus in Chinese and Asian eyes fact as well appearance unilateral governing responsibility Formosa. Furthermore any such negotiation must be carried out with Generalissimo or Li, not at Govt level. It would coincide with President's self-interest. It would, I believe, reassure Formosans and could by aggressive, frank presentation to world opinion be defended as no more invasion sovereignty than grant by US, for example, of B-29 bases. Finally this policy appears only form assistance or participation US can offer which would have any basic appeal in current psychological climate of Chinese Govt leaders and at same time lead toward US desired objectives. [Merchant.]

EDGAR

123 [Merchant, Livingston T.] : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 5, 1949—5 p. m.

[Received May 6—4: 22 a. m.]

143. From Merchant. Taipei's 141 and 142, May 4 raise basic policy recommendation arrived at in isolation and to consideration of which I believe Parker, with his knowledge Formosan economy, and I could contribute. Despite no reply Taipei's 114, April 12, I again recommend with added sense its importance that we both be recalled for consultation Washington. Though Treasury has instructed Parker to proceed to his post Cairo direct by June 1, I believe that at request Department,

⁴² British economist.

this travel via Washington would be authorized for above purpose.
[Merchant.]

EDGAR

893.01/5-649: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 6, 1949—5 p. m.
[Received May 6—8:28 a. m.]

150. Question being asked locally why in view McDermott⁴⁵ Taiwan statement⁴⁶ US Government separately or jointly with others has not made official public approach to Chinese and particularly to Governor Chen here, that, although recognizing interim *de facto* Chinese administration Taiwan, US and other governments have responsibilities Taipei welfare and cannot disregard recent tendency Chinese to treat Taipei in unilateral manner endangering peace, welfare natives not yet legally Chinese. Taipei must not be dragged into Chinese civil conflict.

Sun Moon Lake quarters definitely prepared for Gimo, also see Deptel May 5 re FonOff.⁴⁷ Troops and official refugees continue pour in.

Approach might not succeed but has definite chances, would establish position and hearten natives.

Sent Department, repeated OffEmb Canton 26.

EDGAR

893.50 Recovery/5-649

The Director of the China Program of the Economic Cooperation Administration (Cleveland) to the Director of the Office of Far Eastern Affairs (Butterworth)

WASHINGTON [undated⁴⁸].

DEAR MR. BUTTERWORTH: In October, 1948, the J. G. White Engineering Corporation was employed by the Council for United States Aid of the Executive Yuan of the Republic of China, under a contract financed by the Economic Cooperation Administration, to provide technical assistance to the ECA-CUSA Joint Committee on Recon-

⁴⁵ Michael J. McDermott, Special Assistant to the Secretary of State for Press Relations.

⁴⁶ On April 15 Mr. McDermott stated "the status of Taiwan is exactly the same as that of the Kurile Islands during the war and their final status will be determined by the peace treaty if and when we get one" with Japan.

⁴⁷ Not found in Department of State files.

⁴⁸ Received in the Department on May 6.

struction and Replacement in connection with industrial projects under the China Aid Program.

The initial phase of the industrial program consisting of pre-project engineering surveys has now been completed. It is reasonably clear that the program will not be able to proceed on the mainland of China. Therefore, it makes sense to continue the services of the J. G. White Engineering Corporation only if there is a prospect that an industrial program will be activated on the island of Taiwan.

ECA is willing to continue to finance the contract with J. G. White as long as there is any prospect that their services will be of value, but we feel that we have an obligation to take steps to have the contract terminated, as provided for by its terms, when it no longer serves a useful purpose.

Under the circumstances, I would appreciate it if you could indicate your views as to the future prospects of a program for Taiwan that might involve the engineering services of this Corporation.

Sincerely yours,

HARLAN CLEVELAND

893.50 Recovery/5-649

The Director of the Office of Far Eastern Affairs (Butterworth) to the Director of the China Program of the Economic Cooperation Administration (Cleveland)

[WASHINGTON,] May 9, 1949.

DEAR MR. CLEVELAND: The receipt is acknowledged of your undated letter,⁴⁹ which I received on May 6, 1949, asking for my views with respect to the prospects of a program for Taiwan that might involve the engineering services of the J. G. White Engineering Corporation.

For your confidential information, the Department is instructing Mr. Livingston T. Merchant, Counselor of Embassy now on detail at Taipei, to return to Washington in the immediate future for the purpose of consultation in regard to various problems on Taiwan. Upon his return he will be available for discussion with ECA of the question of the J. G. White Engineering Corporation and related matters. It would seem desirable, therefore, to take no action in this matter pending the arrival of Mr. Merchant.

Sincerely yours,

W. WALTON BUTTERWORTH

123 [Merchant, Livingston T.] : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, May 9, 1949—2 p. m.

87. For Merchant. Urtels 141 and 142 May 4 and 143 May 5. In light of our policy recommendations and estimate situation Dept desires you

⁴⁹ *Supra.*

proceed Washington soonest for consultation. Authorization ur travel by air TO 9-15100 dated May 6. Dept asking Treasury recall Parker for similar consultation.

In view rapid developing situation Dept inclined to believe you should prior departure approach Gen Chen Cheng, or if you consider preferable K. C. Wu, along following lines: You are being recalled Washington for consultation but prior departure wish express concern possibility chaos from mainland spreading Taiwan, as previously indicated ur statement re influx further refugees. You being recalled Washington report situation Taiwan and possibility success Chinese efforts prevent Commie extension control over island either by infiltration or by direct attack.

Edgar should be fully acquainted with situation prior ur departure in order he may take action if necessitated by later developments during ur absence.

ACHESON

893.01/5-649 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, May 9, 1949—3 p. m.

88. Urtel 150 May 6. Dept notes ur statement "question being asked locally" etc. Pls identify persons raising this question.

ACHESON

894A.01/5-1049 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 10, 1949—11 a. m.
[Received May 10—7: 16 a. m.]

152. By series well-spaced moves Governor Chen has now quietly but completely placed yes men in strategic policy and operating positions. His extra-official brain trust continues and increases not unnoticed. General overall character is military, reactionary, unpopular.

Am hearing much conversational personal criticism of regime by people and officials including some Chen civilian appointees decrying excessive conferences, "repetitious pointless speeches", tendency toward solution by military order, tardy break from mainland. Governor's recent speeches down island emphasizing his full authority and threatening punishment to inefficient, indicate dissatisfaction success his efforts and may presage more general military replacements.

Concurrently and despite Governor's public statement, "all troops loyal and isle safe", much feeling official and private that developments mainland plus type troops increasing here raise serious loyalty ques-

tion and irritate natives. Air Force generally reported unwilling fight Communist mainland and even likely defect. Foreign community uneasy, some Americans making inquiries Consulate General. Believe danger not imminent but very real.

Sent Department 152, repeated Canton 28, Shanghai 120.

EDGAR

894A.00/5-1149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 11, 1949—11 a. m.
[Received May 11—3:40 a. m.]

154. Sun Li-jen has not yet composed differences with Governor Chen. States Chen still trying to shelve him in favor own henchman and interferes at low levels while Sun continues fight maintain unhampered command but under Chen. Says Air Force [and] Navy not taking Chen orders. Sun in Taipei to inspect 6th Army near here nominally under his control. Expresses great disgust local and mainland developments. Doubts serious Communist activity Taiwan and claims complete loyalty his troops. Hopes Taiwan can soon have strong civil governor over unified military command. Generalissimo still Shanghai and may come here en route elsewhere. Doubts he will give Taiwan to President Li.

Repeated Canton 30, Shanghai 132, Nanking 135.

EDGAR

893.01/5-1149 : Telegram

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

CANTON, May 11, 1949—6 p. m.
[Received May 12—6:19 p. m.]

Cantel 358. From Merchant. Do not concur in recommendation contained Taipei's 150, May 6, to Department, repeated OffEmb Canton 26.

CLARK

893.01/5-1249 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 12, 1949—noon.
[Received May 13—6:48 a. m.]

162. My 150 perhaps poorly phrased, reDeptel 88. No single important personality involved. Was only attempting telegraphic synthesis

of conversations of social contacts and increasing number of office callers on staff this Consulate General, USIE,⁵⁰ Assistant Service Attachés now here and ECA officials.

Most important persons have been Communications Commissioner, Deputy Police Commissioner, 2 or 3 administrative directors.

In addition, Vice Consul recently on east coast, Vice Consul on south coast both report specific inquiries by Taiwanese. ECA Craig receiving steady stream harassed Tai businessmen, USIE worried Chinese intellectuals and Tai local personalities, Service Attachés and officials, foreign businessmen and others, all referring in varying degree directly or indirectly to us and others responsibility, inadequacy Governor Chen's regime, apparent no implementation Chen pronounced policies, rapid deterioration local picture, various means of solution.

McDermott statement widely discussed privately and variously interpreted, as:

- (a) Mere reply to Wang Shih-chieh;
- (b) Re-issuance policy statement to close debate;
- (c) Opening gun in more positive approach.

Except for top old guard, most hope for (c) and cite recent local denunciation (see my 121⁵¹) of Kmt staging.

Since Nanking's fall, increasing number Chinese contacts, including minor officials, are seeking roof to protect Taiwanese under which they too could crawl.

EDGAR

894A.00/5-1349 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 13, 1949—11 a. m.
[Received May 13—8:21 a. m.]

164. From Merchant. Had unrewarding talk with Chen Cheng May 12. Edgar and C. K. Yen present. Made point influx from mainland economic [and] political liability. Governor replied also concerned but that movement now was small, under control and many only in transit. Governor refused reply my direct question present troop strength on island and number prospective arrivals, saying would be held to number he considered necessary for defense.

Governor talked lengthily on fertilizer need expand exports particularly with loss Shanghai markets. Made no request for economic aid, piously emphasizing need for own efforts which might later justify US help.

⁵⁰ United States Information and Educational Exchange program.

⁵¹ Not printed.

Governor stated he would defend Formosa come what may and thought he could. Said mainland picture gloomy and will no doubt darken further. Governor took pains point out 20 years' service under Generalissimo made any thought refusal his move here out of question but said Generalissimo will not return to office unless popular demand and "foreign diplomatic developments" require his resumption leadership. Governor implied Generalissimo unlikely come Formosa.

Closing I said US shared patriotic Chinese concern over possibility Formosa fall into mainland chaos and underlined seriousness economic-political problem mainland's war in and out of uniform.

I depart for Hong Kong May 13 hoping take PanAm for US May 14. [Merchant.]

EDGAR

894A.00/5-1749 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 17, 1949—9 a. m.

[Received May 17—5:14 a. m.]

168. Captain [of] Keelung Harbor Police told me about 1,000 of 3,000 passengers on last week's ship from Shanghai were admitted without permits. At dinner Governor Chen confirmed this, saying "poor people had no other place to go, were not Communists and had friends here". I suggested overcrowding might foster communism locally.

Mayor of Taipei, same dinner, expressed personal concern over law and order problems here result of "uncontrolled" influx.

Assistant Military Attaché here reports 8,000 army recruits arrived Keelung over weekend.

Details yet unknown but believe with ECA Craig that Island's business leaders and more serious government bureau heads are consulting and preparing some move which may take form widely-backed public appeal to Chinese Government for separatist solution Taiwan problem or to US or UN or FEC⁵² for trusteeship status.

Osborn⁵³ reports from Taiwan that K. C. Wu is generally considered as President Li's selection as next Governor Taiwan with Chen Cheng returning to mainland and General Sun Li-jen as overall military authority here. Occasional mention same possibility heard in Taipei. When last seen, Wu appeared again unwell.

Sent Department 168; repeated OffEmb Canton 35.

EDGAR

⁵² Far Eastern Commission at Washington.

⁵³ David L. Osborn, Vice Consul at Taipei.

894A.00/5-1749

The Consul at Taipei (Edgar) to the Secretary of State

No. 16

TAIPEI, May 17, 1949.

[Received June 6.]

I have the honor to enclose the text of a memorandum⁵⁴ left at the Consulate General entitled "Appealing for a Prompt Action" and signed by a Chen Fong-chu who lists himself as President of the Formosan Democratic Independent Party.

The memorandum, after reviewing Taiwan's troubles, claims that "the duty and responsibility of protection of Formosa must fall upon USA to drive out the unwanted Kmt elements from our island once the term of trusteeship is impractical to them."

It is the considered opinion of this office, based on conversations of its officers with the so called leaders of local independence groups, that these individuals can better be described as self-appointed spokesmen of an island-wide revolutionary movement rather than as leaders of organized revolutionary parties. This opinion is also held by service attachés from the Embassy who have spent much time here recently and by reputable American newspapermen who have checked the local situation.

The recording of this opinion however should not be taken to mean that in the face of an emergency or the unexpected appearance of an opportunity for action that an island-wide uprising might not take place, but it is believed that under present conditions it would not be well organized nor co-ordinated and that the self-appointed leaders could not agree on a concerted plan and policy.

Respectfully yours,

DONALD D. EDGAR

894A.20/5-949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 9 [18?], 1949—9 a. m.

[Received May 18—4:26 a. m.]

172. Despite series conferences with Governor Chen and military commanders here, Sun Li-jen says he has not resolved most important problems, not even touched on control of air force or navy. Has obtained increase of army pay and ration allowance as well as promise of order appointing him Commander-in-Chief of ground forces in Taiwan but considers latter sop with no value since Governor has independently installed General Li Chen-cheng in Pescadores and plans not

⁵⁴ Not printed.

incorporate Shanghai forces retreating here in Sun command. Garrison forces also separate.

Citing fact all US military aid continues custody independent Chinese service forces, although Sun has need for training and arming for battle, he asked if US could control delivery for his benefit (has asked Assistant Military Attaché here same question). I said I thought not in view Congress terms.

Sun claims Taiwan will be lost like China as result internal fights, lack organization, not external enemy. Says no serious plans being made coordinate military or civil operations and hour is late. Criticized Chinese claiming to be Taiwanese particularly notorious C. C. Huang, head of PPC whom Governor took to Canton (additional to my Department 125,⁵⁵ Nanking 121, Canton 15). Repeated his belief in need separation military and civil to save island. Said two good well-armed armies sufficient for defense but Taiwan will probably have four poor ones instead, including Li Chen-cheng's in Pescadores.

Repeated Canton 37, Nanking 138.

EDGAR

Executive Secretariat Files

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, May 18, 1949.

Subject: Implementation of NSC 37/2⁵⁶ and NSC 37/5.⁵⁷

Pursuant to NSC Action No. 123, October 6, 1948, the following progress reports on the implementation of NSC 37/2, "Current Position of the United States with Respect to Formosa", and NSC 37/5, "Supplementary Measures with Respect to Formosa", are submitted for the information of the Council:

Mr. Livingston T. Merchant, Counselor of Embassy specially detailed to the Consulate General at Taipei (Formosa) in accordance with paragraph 5 of NSC 37/5, continues to remain of the opinion that it is unwise to approach Governor Chen Cheng at this time. Mr. Merchant believes that any present implication of United States intentions at this stage would be construed as intervention by the United States in the internal conflict for the control of remnant National Government assets, armed forces and authority and that it would thus be unwise to give such an implication at this time.

In the meantime, Mr. Merchant and the United States Treasury Attaché have worked out with ECA a tentative program for the best

⁵⁵ Not printed.

⁵⁶ February 3, p. 281.

⁵⁷ March 1, p. 290.

use of the \$17,000,000 of ECA funds allocated for use on Formosa, together with plans for activities of the Joint Commission on Rural Reconstruction and for the use of fertilizer under the ECA program. He reports that at the end of April ECA fertilizer was arriving in Formosa according to schedule and that wheat and cotton of a total value of approximately \$500,000 were in Formosa or en route, an amount sufficient to finance the local currency expenditures for the ECA office on Formosa, the engineering survey group and the current program of the Joint Commission on Rural Reconstruction for the next few months.

In accordance with the Department's instructions, Mr. Merchant has informally and orally indicated to a high ranking Government official on Formosa that a further influx of refugees from the mainland would prove detrimental to the political health of and an economic liability to Formosa.

Pursuant to Mr. Merchant's recent recommendations, the Department instructed him on May 9 to return to Washington as soon as possible for consultation in regard to the problem of Formosa.

DEAN ACHESON

893.01/5-1149 : Telegram

*The Secretary of State to the Minister-Counselor of Embassy in
China (Clark), at Canton*

WASHINGTON, May 18, 1949—8 p. m.

TelCan 199. ReCantel 360, May 11.⁵⁸ Possibility rapid conquest S. China by Commies, reports Liu Po-cheng's forces concentrating Nancheng area threatening Fukien and Gimo's inconclusive answers to Li's message all wld seem indicate possibility Gimo's retreating Taiwan shld it become clear mainland untenable. In such event Gimo wld in all probability insist on retention Chen Cheng and likelihood latter wld comply with Li's instructions re replacement wld appear slight unless force employed. Dept's position re status Taiwan made clear in statement by Dept spokesman that final determination must await conclusion peace settlement for Japan. Comment drawn in Chi press and statement presenting contrary view by Wang Shih-chieh indicate Chi well aware US position this matter.

Dept of opinion, therefore, that casual statement by ConGen Taipei to Chen Cheng on occasion Li's instructions re removal (Cantel 303 May 1⁵⁹) wld fall short of desired effect in view larger considerations involved and might backfire if Chen or Gimo saw fit give matter pub-

⁵⁸ Vol. VIII, "Political and military situation in China", chapter II.
⁵⁹ *Ibid.*, chapter I.

licity. In any event, implementation of Chi decision re governorship Taiwan does not fall within US competence and you shld so inform Li or his representative.

ACHESON

894A.00/5-1949 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, May 19, 1949.

[Received May 19—10:29 a. m.]

176. Provincial government and Taiwan garrison today jointly proclaimed martial law here effective May 20. All ports closed except Keelung, Kaohsiung and Makung. Execution for usual offenses.

Repeated EmbOff Canton 39, Shanghai 141, Nanking 140.

EDGAR

894A.00/5-2449

Memorandum by Mr. Livingston T. Merchant to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] May 24, 1949.

United States Government policy with respect to Formosa was established in NSC 37/2,⁶⁰ approved by the President on February 3, 1949, and in NSC 37/5,⁶¹ approved by the President on March 3, 1949. In essence, this policy was designed to secure the denial of Formosa to any Communist or Communist-dominated government on the Mainland. The means available to secure this objective were stipulated to be diplomatic and economic support of the governing group on the Island. A show of force or the employment of U.S. military forces for the security or defense of Formosa was specifically ruled out at this time. The documents under reference took into account the JCS study of the strategic importance of Formosa and contemplated that, as soon as we knew with what group we must deal, there would be an immediate approach to the Governor for the purpose of securing from him certain assurances in return for which ECA would proceed with its suspended industrial reconstruction program on the Island.

In February the groundwork was being laid for peace negotiations, later to prove abortive, in Peiping between the Communists and representatives of Acting President Li Tsung-Jen. Despite the fact that Governor Chen had been appointed by and owed his primary loyalty

⁶⁰ February 3, p. 281.

⁶¹ March 1, p. 290.

to the Gimo, the risk was recognized that from the peace negotiations there might emerge a coalition government which could claim wide support and which could successfully extend its authority over Formosa. Despite the importance which this risk gave to reaching promptly an understanding with Governor Chen, the Department reached the conclusion that delay in committing to Chen full support through the ECA program originally envisaged was justified by the fact that he typified the unenlightened leadership of the most reactionary element in the KMT and by definition appeared incapable of providing Formosa with the sort of liberal government which alone could ameliorate the hatred of the Formosans for their Mainland rulers and in so doing build up political stability on the Island which would minimize, if not eliminate, its susceptibility to Communist infiltration and ultimate seizure of control from within.

The primary reason for delay was our knowledge that the Acting President desired to replace Chen Cheng with General Sun Li-jen, an American trained officer of integrity, competence and liberal philosophy. To date his efforts have been unsuccessful for reasons which are now clear from the open battle between Li and the Gimo for undisputed personal control of the remaining treasure, territory and armed forces not yet under Communist control. In this personal conflict for power, Formosa has become the key pawn and Chen Cheng's exclusive loyalty to the Gimo is plain.

In this interval during which no direct discussions were held with Governor Chen, ECA continued to hold its projected industrial reconstruction program in suspense. ECA proceeded, however, with its scheduled importation of nearly fifty thousand tons of fertilizer for Formosa. Certain medical supplies and odds and ends of flour and cotton yarn were likewise brought in by ECA, in part for the purpose of financing its own local currency expenditures, thereby to avoid contributing in any way to the rampant inflation. JCRF likewise proceeded with its planning for a program on Formosa directed at the well-being of the farmers and comprehending such operations as seed improvement and hog cholera serum manufacture.

During this same period, Chen Cheng entrenched himself in power, traveled and talked freely around the Island, but accomplished little to improve either the material or the political lot of the Formosans.

In November 1948 and in successive waves thereafter, rich refugees and units of the armed forces streamed into Formosa from the mainland. The total of such immigrants is variously estimated to run between five hundred thousand and a million. The present troop strength on the Island is now estimated to exceed two hundred thousand. The economic impact of this migration has been tremendous. Many of the

civilian refugees attempted to finance themselves by inward remittances while in the case of the Army, Navy and Air Force the National Government looked to the provincial treasury to feed and support them. The latter could do so only by printing additional currency.

On April 20 the civil war erupted again with the Communist crossing of the Yangtze, and with this development the immediate risk of a legal voluntary turnover of Formosa to a new government participated in or dominated by the Communists disappeared. The resumption of the war moreover sharpened the conflict between Li and the Gimo and accumulating evidence suggests, almost to the point of certainty, that the Gimo will raise his standard on Formosa—to sit it out there until the third World War breaks out, a war which he regards not only as inevitable but imminent. The Gimo no doubt regards Formosa as secure. The CAF headquarters is there as are certain naval units. The troops on the Island are still increasing as units are withdrawn by sea from the Shanghai area and landed on Formosa. Moreover, the Island is self-supporting in so far as food is concerned and in the vaults of the Bank of Taiwan is nearly US\$90,000,000 in gold. Finally, Chen Cheng has provided a refuge for dozens of the Gimo's oldest and most loyal subordinates.

The developing situation described above requires a reconsideration of US policy with respect to Formosa, with a view to recalculating the chances of success for the policy as now laid down and for the purpose of exploring alternative courses of action. The following factors are important in any such reexamination :

(1) It is the firm resolution of the present Government of Formosa to defend the Island against any Communist military assault and to seek out and suppress any Communist internal activity. The United States does not need to say or do anything to support or reinforce this resolution since it is based on the strongest of all instincts, personal self-preservation.

(2) An immediate military assault on the Island by the Communists seems improbable (i.e., within the next six months). The preparation of the necessary military expedition would seem to require at least that length of time and there is no evidence yet at hand that the Communists are directing their primary attention to Formosa.

(3) The Formosan population is restless and deeply resentful of their Chinese rulers. They do not appear, however, to possess a revolutionary organization, leadership or the arms to produce more than a futile uprising which it would be within the means and purpose of the Government quickly and bloodily to suppress. The Formosans yearn for independence as children yearn for candy. They have a child-like faith in the United States and its relative disinterestedness which overt support of Chen Cheng would go far toward destroying.

(4) In the past six months the economy of Formosa has deteriorated seriously and rapidly primarily because the population has suddenly been increased by between ten and twenty percent and the new arrivals

have been economically non-productive. In these changed circumstances a total ECA program at the annual rate of, say, twenty-five million dollars U.S. could not positively and constructively affect the Island's economy and thereby, as originally hoped, bring political stability in the wake of a net advance of the people's livelihood.

To summarize and over-simplify, we find ourselves faced on Formosa with a situation very similar to that which confronted us on the Mainland a year ago. The Government in power is corrupt and incompetent. Self preservation dictates that it advance our national interest in the process of attempting to preserve its own collective personal neck. The people which it rules hate not only the Government but will hate any foreign country which morally and materially gives its support to that Government. Yet there is no possibility, short of the dangerous and risky effort to finance and promote a *coup d'état*, that the present Government will be replaced or alter its character in the direction of liberal political rule and wise economic action.

It would seem practically that we are confronted by three possible lines of action.

First would be to pursue and execute the policy laid down in NSC 37/2 and 37/5. Admittedly, this would have the advantage of action. The implicit expression of support to the present Government would presumably encourage them spiritually. The economic assistance if properly formulated and directed would slow down, though not cure, the current economic decay. We would, however, see the reservoir of Formosan goodwill to America drop sharply and we would hand the Mainland Communists a ready-made irredentist weapon for their propaganda. We would increase, rather than reduce the vulnerability of many Chinese on the Island as well as the Formosans themselves to Communist agitation.

The second course is briefly outlined in Taipei's telegram no. 142 of May 4. Essentially this would entail forthright action by the United States on a bolder, more costly scale. The irredentist issue thereby created would of course be far more serious than in the case of course one above. It would involve acceptance of the fact that we would place ourselves on the psychological defensive and even more important, it would implicitly commit United States Armed Forces to defend the Island if it came under assault.

The third course available is substantially that envisaged in the closing paragraph of Taipei's telegram no. 141 of May 4. It means relying on the present Government's personal interest in resistance, providing some economic aid of a character designed to reach and directly affect the little men of Formosa, particularly the farmers. It is admittedly a policy of calculated inaction colored with opportunism

and it should be accompanied by vigorous secret spadework with those friendly governments which, like ourselves, are concerned with the strategic importance of Formosa. This spadework should be directed to the ultimate raising of the issue of Formosa in the UN, preferably as a result of an appeal by the native population, supported, if such can be encouraged or arranged, by Mainland elements on the Island.

No one can have had very high hopes that economic and diplomatic steps alone could guarantee the denial of Formosa to a government unfriendly to us. When they choose to put their minds on it, the Communists should be able to take over the Island either by assault or more likely by an infiltration which would include getting at not only the troops but very possibly individual leaders of military units on the Island. The JCS has made clear its unwillingness to contemplate at this time the commitment of U.S. Armed Forces to the defense of Formosa, the only action which could guarantee the security of Formosa from our point of view. If this is a reasonable assessment of the situation and the possibilities of achieving our ends, then it should behoove the United States to guard its moral position not only on Formosa and in China but throughout all Southeast Asia by minimizing its association with a governing group which has already in a larger theater demonstrated its incompetence and unpopularity.

Accordingly, I recommend adoption of course three described above. This will entail the Department reopening the matter in the National Security Council. This should be done promptly. Assuming NSC agrees, then the Department should issue an official public statement along the lines of the statement which was to have been made to Governor Chen under NSC 37/2. This should be accompanied by an active effort to explain to key members of the Congress and responsible newspapermen the underlying elements and difficulties in the Formosan situation.

LIVINGSTON T. MERCHANT

894A.00/5-2549

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

No. 894

LONDON, May 25, 1949.

[Received June 3.]

SIR: I have the honor to report that very little attention has been given in British official and unofficial circles to the various problems of Taiwan, such as the status of the island itself and the status of any

Chinese Government which may be set up there, especially in view of the fact that much of China's resources are reported to have been transferred to the island. There is also a report in London that Generalissimo Chiang Kai-shek and his two sons have left Shanghai for Taiwan but the British Foreign Office has not been able to confirm this. In view of the above facts the Embassy has been endeavoring to obtain some indication of British thinking in regard to Taiwan and the following are the results:

Official—Foreign Office

Mr. Dening,⁶² of the Foreign Office, stated that neither the British Cabinet nor officials of the Foreign Office have given much consideration to the problems of Taiwan and no Foreign Office policy has been established as yet. He stated that should a refugee Chinese government or a Chinese government in exile be set up in Taiwan, which is not yet legally Chinese territory, it is probable that the British Government would simply appoint a British Consulate in Tamsui as an office of the British Embassy in China. His own opinions were that any Chinese government established in Taiwan would be in a very ambiguous position and would present difficult problems to the governments of the world and especially to the United Nations. Should we or should we not recognize any such government as being the Government of China, entitled to appoint diplomatic representatives abroad and to the United Nations? Moreover, the problem of who should control Chinese Government funds abroad would arise. However, Dening said, one thing is certain, the Communists must not be allowed by the Western nations to take Taiwan.

Communist control of Taiwan would be a direct threat to the Philippines and to South-East Asia, both by infiltration and by direct aggression. Under no circumstances should this be allowed to take place.

Parliament

During the Debate on China in the House of Commons on May 5, Mr. Walter Fletcher (Conservative) wished to discuss the problem of Taiwan. He was ruled out of order by the Deputy Chairman (Mr. Bowles) (Labor), who made the following surprising statement: "Formosa, I realize, is the seat of the present Nationalist Government of China. But it is not China. I think it was part of Japan . . .⁶³ My geography may be weak, but surely Hong Kong, although ruled by the Colonial Office here, is really geographically part of China. For-

⁶² Maberly E. Dening, British Assistant Under Secretary of State for Foreign Affairs (Far East).

⁶³ Omission indicated in the source text.

mosa is a part of Japan, and is not really China, though the Chinese Government may be there.”

On May 16, Mr. Teeling (Conservative) asked whether the British Government would “reconsider the position of Formosa under the Cairo Agreement ⁶⁴ in order that the surplus population and industries of Hong Kong may be transferred there.” He further asked if the Foreign Secretary ⁶⁵ realized that Formosa “was actually offered to Britain in 1895 before the Japanese took it over? Does he further realize that Hong Kong cannot go on absorbing the Chinese and others, and if these people want the protection of the British why not allow them to have it in Formosa?” Mr. Bevin replied: “I cannot agree with the hon. Member in the proposal which he now makes . . . ⁶³ I have given serious consideration to Formosa, and I think the hon. Gentleman’s Question was rather startling.”

Unofficial

The *Economist*, on May 21, published a short note regarding the “Ownerless Isle”, that is, Taiwan. The article described the present status of Formosa rather accurately and stated that Formosa with its sugar production is better off as regards export trade than any other comparable area of China, and its material resources have been greatly increased by the transfer to the island of much of China’s monetary reserves. However, the article stated any defense of the island over a lengthy period would require some foreign aid. “It remains to be seen whether the current State Department policy of writing off the Chinese Nationalist cause is to be applied to Formosa as well as to the mainland. If the American Government still wishes to save anything from the wreck of its China policy, the unsettled status of Formosa in international law would afford a ground for treating the island as a separate entity, even if recognition were given to a Communist regime as the Government of China . . . ⁶³ The problem of refugees in Hong Kong is already acute. If Formosa were to be overrun by, or handed over to, the Communists, the world would have to cope with a new wave of Displaced Persons, and they would either have to be forcibly repatriated to China, in reversal of principles hitherto accepted in the west, or accommodated in such countries as the Philippines or Malaya, which already have their local problems of Chinese immigration.”

Respectfully yours,

For the Ambassador:
ERLE R. DICKOVER
Counselor of Embassy

⁶⁴ For declaration by President Roosevelt, Generalissimo Chiang Kai-shek, and British Prime Minister Winston S. Churchill, December 1, 1943, see *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, p. 448.

⁶⁵ Ernest Bevin.

894A.02/6-249 : Telegram

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

CANTON, June 2, 1949—6 p. m.

[Received June 3—8:39 a. m.]

Cantel 522. Inspector General Customs, Little,⁶⁶ has shown me copies correspondence from Governor Chen Cheng of Taiwan to Minister Finance⁶⁷ recommending that present Taiwan and Taipei Commissioners Customs be removed and replaced by head Conservancy Bureau [at] Kaohsiung and Mayor [of] Keelung, respectively. Before acting Minister Finance requested comment, Little who pointed out that such action would be death-blow to maritime customs service system which had been built up over period of almost century and has told Minister orally that if two men are replaced he, Little, will have no recourse but to resign and state publicly reasons why. Little has inquired whether there was anything we could do prevent this disruption customs service.

Although at first glance, question would appear to be one solely for Chinese internal decision, it occurs to me that in view our contemplated activities Taiwan and hope Governor Chen that our activities there will be enlarged, we might appropriately, either through our Consul [at] Taipei or ECA representative there, tell Governor Chen of our knowledge of his recommendations and say informally that whatever possibility exists of future US assistance in province Taiwan would most certainly be prejudiced if he were to take action contemplated. Also I might be authorized approach S. Y. Liu that sense. Would appreciate instructions.

Sent Cantel 522, repeated Nanking 356.

CLARK

894A.00/6-349 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 3, 1949—2 p. m.

[Received June 3—3:08 a. m.]

199. Garrison Commander, General Peng, says the 50,000 troops from Shanghai's 52nd, 54th and 99th Armies will continue in Taiwan indefinitely under his command although he would prefer only two good, well-equipped armies to defend Taiwan. Says general situation here worsens daily and Communist take-over inevitable.

⁶⁶ L. K. Little, American.

⁶⁷ S. Y. Liu.

Assistant Military Attaché says local military see Peng now in dominant position here as result of above while General Sun Li-jen must take back seat.

Sent Department 199; repeated OffEmb Canton 55.

EDGAR

893.50 Recovery/6-349: Telegram

The Acting Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, June 3, 1949—5 p. m.

118. Dept is reopening in NSC question substantial ECA assistance to Taiwan. Decision expected within 2 weeks. For ur conf info and discreet transmission Craig and Griffin respectively activation industrial reconstruction program or other massive economic aid appears improbable.

WEBB

894A.02/6-249: Telegram

The Acting Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, June 4, 1949—6 p. m.

121. Fol is Cantel 522 June 2 to Dept: [Here follows text of Cantel 522, page 344.]

ECA Wash, Lapham, and Dept agree above recommendation and that approach Chen should be made by Craig in sense last para reftel. Please inform Craig. Dept is authorizing Clark approach S. Y. Liu as suggested.

WEBB

893.00/6-849: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 8, 1949—11 a. m.

[Received June 8—2:36 a. m.]

210. K. C. Wu again looking well called on me on return from tour of Formosa. Highly encouraged by findings, believes Formosa can hold out with minimum troops since coastline is so easily defended. His impressions are that Formosans are loyal Chinese although anti-Nationalist Government, that they fear undisciplined soldiers and are uncertain of holding their jobs. He is recommending to Governor Chen concerted effort to win over Formosans which he thinks is possible.

He expects near panic here when Foochow falls and again when Canton is lost but that thereafter a general determination to fight and work together will override current factional differences and surmount local problems. He talked with Generalissimo at Takao.

He has replied to Tu Yueh-sheng's⁶⁸ inquiry that Tu should not accept Communist invitation to return to Shanghai because present apparent leniency will stiffen after Canton's fall and Tu would be trapped.

Sent Department 210, repeated OffEmb Canton 65, Shanghai 166.

EDGAR

501.BB/6-949

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Deputy Under Secretary of State (Rusk)

[WASHINGTON,] June 9, 1949.

At a meeting yesterday afternoon attended by Mr. Sandifer⁶⁹ and Mr. Gerig,⁷⁰ it was tentatively agreed that the most promising United Nations action which could be taken to deal with the urgent problem of Formosa was to request a special meeting of the General Assembly early this summer. The request would be accompanied by a full statement of the United States position, including an explanation of the basis for revoking, in part at least, the Cairo Declaration,⁷¹ and making plain that the United Nations' action envisioned was to call for and supervise an election on the Island in which the people of Formosa could vote on a return to the Mainland or some alternative trusteeship arrangement pending their qualification for independence. This would require prompt and skillful diplomatic spadework, first with the British, and then with all members of the United Nations who might be expected to view the proposal sympathetically. It seems to me that our position before the world would be morally unassailable. Moreover, this course would avoid a long period of delay in which the Communists might be expected to step up their activity on the Island.

In view of the urgent nature of this problem, I trust that we can get together to discuss it in the immediate future. I recommend that the attached paper be submitted to the National Security Council Secretariat as promptly as possible in the form of a working paper, and that concurrently we open informal exploratory discussions with the British Embassy here.

W. W[ALTON] B[UTTERWORTH]

⁶⁸ Banker and industrialist of Shanghai.

⁶⁹ Durward V. Sandifer, Acting Director of the Office of United Nations Affairs.

⁷⁰ O. Benjamin Gerig, Chief of the Division of Dependent Area Affairs.

⁷¹ See *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, p. 448.

[Annex 1]

*Draft Memorandum for the Executive Secretary of the National Security Council (Souers)*⁷²

Subject: Formosa

ANALYSIS

It is believed that United States policy with respect to Formosa should be re-examined. This Government's representatives in Formosa have sought to implement this policy but the situation as it has developed indicates that, notwithstanding their efforts, there is little prospect that our objectives can be achieved by following the course laid down in NSC 37/2⁷³ and NSC 37/5.⁷⁴

The fact is that we face on Formosa today a situation analogous to that which confronted us on the mainland of China a year ago. The government in power is corrupt and incompetent. It lacks the wisdom and the will to take the necessary political and economic steps to modify the deep and growing resentment of the Formosans. The burden of supporting the mass of nationalist troops and other governmental establishments is so great as to accelerate the economic disintegration of the island. Moreover, economic aid from outside can not in the absence of a basic change in the government alter or cure this situation, and so long as it endures the passage of Formosa under Communist control, by external or internal action, is only a matter of time.

There appears to be three courses of action open as alternatives to the present one.

The first would require not only the assumption of military responsibility for the security of the island but also a large measure of responsibility for its civil administration and the conduct of its economy. We could not hope otherwise to compensate for the incapacities of the existing government. The assumption of these responsibilities, needless to say, would be widely regarded by the mainland Chinese as an aggressive American action. In fact the reaction might be considerable not only throughout Asia but in the world at large. Traditional United States policy toward China has always been to assist as possible the establishment of a democratic, united and genuinely independent China. In pursuit of this basic policy, we must seek to exploit fissures between China and the U.S.S.R. The Soviet position in Manchuria and Port Arthur has created irredentist issues which we can use to advantage. To provide the Communists with an issue which

⁷² Marginal notation by Livingston T. Merchant: "Draft of June 9 (as modified). Discussed with Dean Rusk June 10 LTM".

⁷³ February 3, p. 281.

⁷⁴ March 1, p. 290.

they can propagandize in irredentist terms against us seems extremely unwise. In addition to the political costs of such an action, it is estimated that the United States would have to provide economic support in the neighborhood of fifty million dollars over the next eighteen months as an essential to the success of such a policy. Funds are available for such a program from unexpended ECA balances and the figure might be reduced if an arrangement could be negotiated with the Formosan Government whereby it would match from its own gold holdings any U.S. contributions on a dollar-for-dollar basis.

Finally, this course of action would implicitly, even if it did not explicitly, commit U.S. military forces to the defense of Formosa in the event of a Communist military assault from the mainland. This would require a reversal by the Joint Chiefs of Staff of the position they took in NSC 37/3.⁷⁵ Politically, financially and militarily, the cost of such a course of action appears extremely high.

The second alternative course is essentially a policy of calculated inaction, providing a modicum of economic aid but relying primarily upon the self-interest of the present Chinese governing group to safeguard our own strategic interests. The length of time that our interests and theirs will coincide or that they will have the will and ability to resist any external or internal attack which the Communists may mount against them is unpredictable. It should safeguard our interests for, possibly, six months in which time much can happen there and elsewhere. A corollary, however, of such a policy would be to vigorously press forward with the necessary spadework for a later presentation of the problem of Formosa before the United Nations. This course would protect our reservoir of goodwill among the Formosans, among the mainland Chinese, and presumably throughout Southeast Asia. It has, however, the unhappy characteristic of passivity in the face of an active threat.

The last and third alternative is an immediate committal of the problem of Formosa to the United Nations. There are several methods by which this might be accomplished. Of the two most likely possible methods, the first would be to persuade a friendly and interested power, such as India or the Philippines, to place on the agenda of the United Nations Trusteeship Council which meets on June 15, a request that a temporary trusteeship be established by the United Nations over Formosa. Such action, however, would involve creating a precedent in that hitherto the Trusteeship Council has only acted on matters referred to it by the General Assembly. Moreover, even assuming the Trusteeship Council placed this matter on its agenda, it would proba-

⁷⁵ February 11, p. 284.

bly restrict itself to a recommendation to the General Assembly at its meeting next Fall, which would result in an undesirable time lag before any positive action by the United Nations could be initiated. An alternative and more appealing procedure would be to have the United States, preferably in company with several other friendly and interested powers, request a special session of the General Assembly to consider the problem of Formosa, with the recommendation that a plebiscite be held on Formosa under the supervision of the United Nations in order to enable the people of Formosa to express their wishes as to their future status. This request to the United Nations would explain in some detail the responsibility which the United States feels toward the people of Formosa. It should also forthrightly point out that the post-war conditions in so far as Formosa is concerned, as envisaged at the time of the Declaration of Cairo, have not in fact materialized and that the record of misrule by the Chinese authorities on the Island requires that the people themselves should have the opportunity to decide their own destiny. A draft statement along these lines is attached as Tab "A".

As a party to the Cairo Declaration, the British Government should be immediately informed of the direction of our thinking with a view to securing parallel action and the concurrent issuance by it of a similar statement. There are disadvantages to this course. The Formosans might vote to return to China. While improbable, the risk has to be recognized. Another difficulty is the possibility that the Chinese authorities on Formosa might refuse to accept the decision of the United Nations and block the entry of a Plebiscite Commission, thereby challenging the United Nations and raising the question of backing the decision with force. On balance, however, this course of action appears to carry fewer risks and a higher promise of success than the other lines of action considered. The moral position of the United States would seem to be unassailable. The right of self-determination is difficult to quarrel with and is certainly appealing throughout Asia. Certainly the United States would be relieved of any accusation that it was acting unilaterally and imperialistically.

RECOMMENDATIONS

It is recommended that :

1. Alternative three above be adopted.
2. The United States Government request a special meeting of the General Assembly in the immediate future and concurrently issue a statement along the lines of that contained in Tab "A", having first assured parallel action and support from the British Government and at least one other interested nation.

[Subannex—Tab "A"]

PROPOSED STATEMENT TO BE ISSUED BY THE SECRETARY OF STATE AT
THE UNITED STATES GOVERNMENT REQUESTS SPECIAL SESSION OF
THE GENERAL ASSEMBLY

(This statement would be accompanied by a White Paper on the
subject of Formosa)

The United States Government with the support of the Governments of the United Kingdom and _____, has requested the immediate calling for a special session of the General Assembly of the United Nations to consider the problem of Formosa toward the people of which Island, the United States feels an especial responsibility by reason of the part it played in the liberation of the Island. At the special session of the General Assembly, the United States Government will propose that a free and secret plebiscite be held on the Island under the supervision of a United Nations Commission, in order to enable the people of Formosa to express their wishes with respect to a return to China or some alternative under which they would assume independence either immediately or after some preparatory period of United Nations trusteeship.

Under the Cairo Declaration of December 1, 1943, to which both the United States and the United Kingdom were parties, the intention was expressed to restore to the Republic of China the territories, such as Manchuria and Formosa, which had earlier been lost to Japan. The Cairo Declaration, however, further declared that the determination of the final status of Formosa must await the conclusion of a peace settlement for Japan. Having watched with mounting concern the misrule of Formosa by the Chinese governing authorities since VJ Day, the United States has reached the conclusion that the Chinese Government has forfeited the right to a perfunctory confirmation of sovereignty at the time of concluding a peace settlement with Japan, and that the people of Formosa are entitled to express freely and by secret ballot, their desires with respect to their own destiny.

The United States Government has no designs on Formosa. It does not seek military bases or special privileges of any character whatsoever on the Island. The United States Government, however, is rightfully concerned for the peace, prosperity and future of those whose home is on Formosa, and in conformity with its traditional espousal of the principle of self-determination, is laying before the United Nations the proposal described above.

894A.00/6-1049 : Telegram

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

NANKING, June 10, 1949—10 p. m.

[Received June 10—12:11 p. m.]

1263. From subsequent conversation which Fugh⁷⁶ had with Huang Hua,⁷⁷ it appears that latter was disappointed in my lack of response to introduction into conversation of subject of Taiwan (see Embtel 1235, June 8 to Department,⁷⁸ repeated Canton 511, Shanghai 664).

Fugh drew inference from Huang's subsequent remarks that latter hoped that I could be persuaded to recommend to Department that public statement be made about legal aspects of island and thus discourage Generalissimo from establishing base there. I do not recall any such implication in our conversation and find suggestion paradoxical coming from Commies. However, there is impression forming in my mind that they are seriously concerned about capacity of Kmt to drag out hostilities, thus postponing CCP's right to represent whole of China and aggravating their economic problems.

Sent Department 1263, repeated Canton 523, Shanghai 678.

STUART

894A.00/6-1149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 11, 1949—11 p. m.

[Received June 11—10:25 a. m.]

224. Since fall of Shanghai and Tsingtao and with influx of retreating troops to Formosa, a defeatist atmosphere had developed here. Soldiers are everywhere in schools, warehouses, private houses. Commercial activity Keelung harbor again at standstill due to crowding of troop ships. Rice unobtainable in markets but soldiers continue haul sacks through streets.

Several officials have resigned and are departing for US and Europe, others planning to. ECA Craig has requested his release. Chen's continual conferences are general joke and guarantee of more speeches and less action. Criticism of Governor in general in official and semi-official circles for his unwillingness or inability delegate authority and lack confidence in any subordinate. Craig says economy completely out of hand.

⁷⁶ Philip C. Fugh, Chinese private secretary to Ambassador Stuart.

⁷⁷ Chinese Communist in charge of the Alien Affairs Office at Nanking.

⁷⁸ Vol. VII, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter I.

Backstage activities of Generalissimo add to feeling of futility. Am receiving reports that Formosans listening to Communist radio and have begun to balance Kmt against Communist regime. General feeling is island is falling apart and something drastic should be done but that nothing will.

Sent Department 224; repeated OffEmb Canton 74.

EDGAR

893.00/6-1249 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 12, 1949—4 p. m.
[Received June 13—1:15 a. m.]

225. For Butterworth. Sun Li-jen, very discouraged, has come to Taipei to tell Governor Chen situation going rapidly from bad to worse and hordes of undisciplined soldiers with silver dollars are making Sun's position hopeless. Told me he had already raised question with Generalissimo at Takao who became irate, claiming Shanghai troops excellent, fought valiantly and deserve sincere welcome.

I gave him the personal message of your letter May 5 to Merchant at which he brightened considerably.

Sun stated situation has reached stage here where everyone would welcome a change. Believed if Governor Chen received replacement orders from President Li he would withdraw and Generalissimo could not obstruct. He discounted my suggestion of probable sabotage of any such new Governor by Kmt vested interests and said if new regime were forceful and obviously in national interest sabotage if any would be negligible. Criticized Li for not having taken such action already and asked why US did not have Embassy Office Canton urge it. Said new Governor could quickly find many capable liberal officials here to undertake job of saving Formosa for future China and believed outside support would come after situation cleared. Condemned General Peng and other Chen henchmen as self-centered, blind and 50 years out of date. General Yen ⁷⁹ not Generalissimo man and would support change if told of conditions here by US. If move not made promptly, Shanghai and Tsingtao stragglers will be reinforced and become organized full armies complicating problem. Sun not even permitted to know what military supplies are here. Said if soldiers become settled they will be hardest to move and fewer places to go. 99th now planned for east coast, 52nd for Pescadores and 54th for

⁷⁹ Marshal Yen Hsi-shan became Chinese Premier at Canton on June 3.

Taichung. Island defense easy with only two or three armies. Cannot interpret his reaction to my inquiry re Wu's recent visit south. May have been either disapproval or conspiratorial. Sun talked of going Hawaii for US military maneuvers.

EDGAR

894A.00/6-1749 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, June 21, 1949—8 p. m.

[Received June 21—12:57 a. m.]

430. Growing discussion among Chinese here re Formosa indicates misunderstanding its status. Many believe it virtually US territory, administered indirectly by MacArthur. Though many better educated disagree, average Chinese believes US considers Formosa of prime importance to Pacific defense line and that its "loss" would be serious blow. Result is widespread feeling US will not "let Formosa go" at any cost.

Communist soldiers been told for some time they will attack and take Formosa. If Communists gain it by military or other means, many anti-Communist Chinese feel Communists will make greater propaganda capital than even Mukden, Yangtze and Tsingtao developments, which exploited with considerable effectiveness. General opinion these Chinese is that rapidly diminishing means of US reaching Chinese public be used to state US policy re Formosa. This group feels timing important so Communist occupation Formosa will not seem US delays giving Communists further chance portray US as "confused and impotent paper tiger".

Sent Department 430, repeated Nanking 257, Shanghai 293, Peiping 183, OffEmb Canton 430.

SMYTH

894A.00/6-1749 : Telegram

The Secretary of State to the Consul General at Tientsin (Smyth)

WASHINGTON, June 23, 1949—8 p. m.

157. While appreciating force of argument ur 430 June 7 [21], Dept believes public statement re Formosa unwise at this time.

ACHESON

894A.00/6-2449 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 24, 1949—3 p. m.

[Received 10:16 p. m.]

251. Generalissimo reportedly now Taipei from Takao, possibly to attend meeting of southeast Chinese military leaders called here by Governor Chen to discuss area defense plans.

If Department desires attempt to save Taiwan from direct involvement in civil war, now appears opportune time make formal representations to Governor Chen.

During past week Chen's four principal economic advisers, Hsu Pai-yuan, C. K. Yen, Jen Hsien-chuen and K. C. Wu, in discussing fiscal reform have all told me biggest economic problem is excess military here. Can carry two or three armies but over that produces diminishing economic, political, military returns. Sun Li-jen has said same thing many times and yesterday quoted Generalissimo in same vein but stated Generalissimo's lieutenants want more for possible attack on mainland and Chen wants personal troops here.

Addition our support now might produce results. If preferred, ECA could take action.

Sent Department 251; repeated OffEmb Canton 99.

EDGAR

894A.00/6-2549 : Telegram

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

SHANGHAI, June 25, 1949—1 p. m.

[Received June 25—4:01 a. m.]

2490. Department might wish to consider some action re use of Taiwan as base for blockading and bombing Shanghai. It occurs to me that action in this sense perhaps in conjunction with other friendly powers in FEC⁸⁰ might serve as basis for preventing Communist action against Taiwan till Japanese treaty signed.

Sent Department, repeated Canton 802.

CABOT

894A.00/6-2549 : Telegram

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

WASHINGTON, June 28, 1949—8 p. m.

1303. Dept appreciative suggestion urtel 2490 June 25, rptd Canton as 802, but believes no useful action feasible these lines at this time.

ACHESON

⁸⁰ Far Eastern Commission at Washington.

893.50 Recovery/6-2949

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] June 29, 1949.

Subject: Formosa

Participants:	The Secretary	Mr. Hoffman, ECA
	Mr. Butterworth, FE	Mr. Lapham, ECA
	Mr. Merchant, FE	Mr. Griffin, ECA
		Mr. Cleveland, ECA

Mr. Hoffman this morning brought in Mr. Roger Lapham and Mr. Allen Griffin, retiring chief and deputy chief, respectively, of the ECA mission to China.

Mr. Griffin, who had just returned from Canton via Tokyo, discussed at some length the situation on Formosa, particularly in connection with ECA's efforts to increase trade between Formosa and Japan. He emphasized the lack of interest displayed by SCAP officials in his efforts to arrange for acquisition on a barter basis by SCAP of a substantial quantity of Formosa's surplus sugar. Mr. Butterworth reported his action yesterday with the Department of the Army and it was agreed that Mr. Cleveland of ECA would follow this matter up with the Pentagon.

Mr. Lapham then gave a brief report on the liquidation of the ECA mission in China, pointing out that from 100 American members it had now dwindled to less than 20, including small "wind-up" missions located in Hong Kong and Tokyo. He reported that supply activities would cease in Canton within a matter of weeks leaving only Taipei where any continuing ECA work is contemplated, apart from JCRR activities on that island and in certain non-Communist areas in the interior of the mainland.

Mr. Hoffman then raised the question of Formosa, stating his belief that a policy decision by the Department was required. He added that naturally ECA would be happy to proceed in such fashion as this decision required. Mr. Hoffman said that in his view three alternatives were before us. First would be an all-out ECA economic program supported and protected by U.S. military forces, or at least our willingness to commit them if needed; second, for ECA to close down its activities on the island as soon as the current shipments of fertilizer have been distributed and then withdraw all ECA personnel; third, to continue with a modest commodity import and JCRR program, supplemented by active efforts to increase Formosa's export trade and thereby increase the island's ability to help itself. Mr. Hoffman indicated that the second course appealed most to him and noted the difficulty that he would have in supporting before Congress the use of ECA funds to rehabilitate the island, since it is a matter of common knowledge that

the Generalissimo disposes on the island of up to 275 millions in gold and foreign exchange.

I pointed out that under the outstanding NSC Series 37 directive we are instructed to support "vigorously" the economy of Formosa. I said, however, that in the light of developments since that policy was determined upon, a reexamination of the situation by the NSC was indicated. I concluded by saying that the Department would undertake to secure this reexamination and keep Mr. Hoffman informed of the result. Meanwhile, efforts to increase the export trade of Formosa should be continued together with the existing ECA program on the island.

894A.00/6-2449 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, June 30, 1949—8 p. m.

161. Dept fully aware liability excess troops constitute on Taiwan but unwilling intervene formally with Governor on military matter, responsibility for which is Chinese. Dept desires, however, you continue informally to stress to Governor's inner circle (ref urtel 251, June 24, rptd Canton as 99) political, economic consequences and disaffection risk inherent in idle troops in excess island's defense needs. If you and Craig agree suggest latter similarly informally express himself.

ACHESON

Policy Planning Staff Files, Lot 54-D195

*Memorandum by the Director of the Policy Planning Staff
(Kennan)*⁸¹

[PPS 53]

UNITED STATES POLICY TOWARD FORMOSA AND THE PESCADORES

1. It now seems that there is little likelihood that the policy set forth in NSC 37/1,⁸² 37/2⁸³ and 37/5⁸⁴ will attain our major objective with respect to Formosa and the Pescadores—the denial of the islands to the Communists through their separation from Chinese mainland control. The situation in Formosa and the Pescadores is de-

⁸¹ This memorandum, PPS 53, according to an attached chit, was canceled on July 6; a note stated that the views of the Policy Planning Staff would be submitted by Mr. Kennan in a personal memorandum; latter not found in Department of State files.

⁸² January 19, p. 270.

⁸³ February 3, p. 281.

⁸⁴ March 1, p. 290.

generating along lines which probably, though perhaps not for two or three years or perhaps in a matter of months, will culminate in Chinese Communist domination of the islands. A review of our policy is therefore in order.

2. It would now seem clear that the only reasonably sure chance of denying Formosa and the Pescadores to the Communists and insulating the islands from mainland authority would lie in the removal of the present Nationalist administrators from the islands and in the establishment of a provisional international or U.S. regime which would invoke the principle of self-determination for the islanders and would eventually, prior to a Japanese peace settlement, conduct a plebiscite to determine the ultimate disposition of Formosa and the Pescadores. Formosan separatism is the only concept which has sufficient grass-roots appeal to resist communism.

3. There are two ways in which this change in regime could conceivably be brought about.

a. One would be to induce other Far Eastern powers to take the lead in initiating international action to achieve the above purpose. (For purposes of illustration, I attach a paper outlining such a course of action, drafted on the assumption that this was the course we would wish to pursue.)

b. The other would be to announce a temporary unilateral re-assertion of authority over the islands on the grounds that subsequent events had invalidated all the assumptions underlying the Cairo Declaration and that U.S. intervention was required by the interests of stability in the Pacific area as well as by the interests of the inhabitants of the islands.

4. Either of these courses would necessitate a change in the views of the National Military Establishment on the strategic importance of Formosa.*

5. Either would serve to provide the Kremlin and Chinese Stalinists with a welcome propaganda foil to the growing restlessness in Chinese Communist circles over Russian imperialism in Manchuria (particularly Port Arthur and Dairen).

6. Either would confront us with the eventual probable responsibility for removing the Chinese forces and many of the Chinese refugees by force to the mainland. This would involve a considerable

*"The Joint Chiefs of Staff are still of the opinion that any overt military commitment in Formosa would be unwise at this time. In spite of Formosa's strategic importance, the current disparity between our military strength and our many global obligations makes it inadvisable to undertake the employment of armed force in Formosa, for this might, particularly in view of the basic assumption that diplomatic and economic steps have failed, lead to the necessity for relatively major effort there, thus making it impossible then to meet more important emergencies elsewhere." (NSC 37/3, February 11, 1949.) [Footnote in the source text.]

amount of pushing people around, which would be unpleasant and might lead to serious moral conflicts within our own people and government.

7. The first of the two courses would involve a diplomatic operation calling for great subtlety of approach and for rapid, resolute action, with the most sensitive command of timing. It would, I am afraid, surpass the framework of experience and capabilities of the many people, both here and abroad, who would have to participate in it.

8. The second alternative would offend the sensibilities of many people in the Department on legal and procedural grounds, and we would probably have to cut some legal corners to justify it.

9. All the advice I can get in the Department tells me that both of these possible courses should be rejected and that we should reconcile ourselves to the prospect of Formosa's falling into the hands of the Chinese Communists. I personally feel that if the second course were to be adopted and to be carried through with sufficient resolution, speed, ruthlessness and self-assurance, the way Theodore Roosevelt might have done it, it would be not only successful but would have an electrifying effect in this country and throughout the Far East. I have nothing to support this view but my own instinct. And since the successful execution of the idea would depend on many other people, including the President, having the same instinctive concept and a readiness to assume gladly and with conviction the unquestionably great risks which it involves, I cannot put it forth without reservation as a measured and formal staff recommendation.

10. My feeling is, therefore, that at this stage you should discuss this with the President and your colleagues in the National Security Council, and should make plain to them that the courses outlined above seem to be the only alternatives to eventual Chinese Communist rule on the islands. If they then feel strongly, as I do, that our situation in the Far East will not permit further inaction in areas where our military and economic capabilities would be adequate to meet the possible commitments flowing from intervention; if they agree, as the NME⁸⁵ has hitherto been reluctant to do, that Formosa and the Pescadores is such an area; and if they are prepared to assume their full share of the responsibility for initiating and pursuing such a course—then my personal view is that we should take the plunge.

11. If we are not willing to do this, then we should ask the NSC to note carefully our view that as a consequence the islands are more likely than not eventually to fall under Chinese Communist control; that any later efforts on our part to prevent such a contingency would probably be both tardy and ineffectual; and that we should therefore

⁸⁵ National Military Establishment.

set about to prepare U.S. and world opinion as best we can for a possible further significant extension of Chinese Communist control—this time to an area close to our military position in the Ryukyus, close to the Philippines, and relatively inaccessible to military attack by land forces from the mainland in the face of even the most rudimentary air and naval opposition, and above all to an area populated by a dependent people for whom we have a certain specific responsibility and for whom such control would constitute an oppressive alien domination.

[WASHINGTON,] July 6, 1949.

[Annex]

Draft Memorandum Prepared in Policy Planning Staff

[WASHINGTON,] June 23, 1949.

A POSSIBLE COURSE OF ACTION WITH RESPECT TO FORMOSA AND THE
PESCADORES

Preliminary Comment

1. Any plan for the removal of the present authorities on Formosa and the Pescadores immediately encounters two serious obstacles: (a) there are now approximately 300,000 Chinese troops on the islands, who might resist such action and (b) this Government is more or less committed to Chinese sovereignty over the islands.

2. This paper does not attempt to provide a solution to the first of these obstacles. The answer to that question turns, in the last analysis, on whether the National Military Establishment is able and willing, on much the same principles which animated the British at Oran and Dakar, to provide the requisite force to subdue and eject, if necessary, the Nationalist forces now on the islands and to exert effective authority there for an interim period. For these reasons, this plan cannot be implemented unless the NME indicates such readiness and ability.

3. This paper does explore the possibilities for overcoming the political obstacles which stand in our way and for providing a justifiable political framework within which this Government might resort to a show of force or, if necessary, an active exercise of force in bringing about an administration independent of Chinese mainland control and enjoying solid anti-Communist popular support.

4. The recommendations which follow are suggestive rather than definitive. The general course of action being proposed here is so complex and full of unpredictable elements that, if accepted, it should be implemented with intelligent flexibility.

Course of Action

5. An inquiry should be instituted, along the lines of paragraph 2 above, as to whether the NME is able and willing to provide the requisite force to subdue and eject, if necessary, the Nationalist troops now on the islands, and to exert effective authority there for an interim period. While awaiting a reply from the NME, we should:

a. unofficially, through an existing cut-out, sound out the Philippine Government in guarded terms slanted to its own interests regarding the proposed course of action set forth in paragraph 8 (The Filipinos are naturally going to be most reluctant to place themselves out in front on this score unless this Government gives them a greater sense of security against external attack.);

b. in no-wise committing this Government, indirectly approach the Australian Government along the same lines;

c. even more cautiously and tentatively explore the attitude of the Indian Government;

d. prepare a chapter in the White Paper on China dealing with Formosa,⁸⁶ with particular emphasis being laid upon Chinese misrule of the islands since VJ-Day (The White Paper, or at least the chapter on Formosa, should be issued before action is taken along the lines laid down in paragraph 7.);

e. release for background purposes a small but steady stream of information of this character and information regarding the Formosan reemancipation movement.

6. If the reactions from all three Governments are negative, we should reexamine this paper in the light of what has been learned.

7. If the reactions are affirmative and if the NME expresses a willingness to make a show of force adequate to eliminate Nationalist troops from Formosa and the Pescadores, and if necessary to apply it, we should forthwith

a. secretly and officially discuss with the Filipinos, Australians and, if progress has been made with Nehru,⁸⁷ the Indians, the questions which were raised with them through informal contacts. We should state that if any one or all of them would take the initiative in the matter we would be prepared to support them and follow through on a practical basis. At this stage, the British, Canadians and New Zealanders should be secretly advised of these conversations;

b. If there is general concurrence among the Philippine, Australian and Indian Governments that all or any one of them would raise the Formosan question as an issue requiring the attention of the powers which defeated Japan,† make our position clear along the lines set forth in the following paragraph.

⁸⁶ See Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 307; see also *post*, pp. 1365 ff.

⁸⁷ Jawaharlal Nehru, Indian Prime Minister.

†As used in this paper "the powers which defeated Japan" and "the powers at war with Japan" refer only to those represented on the Far Eastern Commission: US, UK, USSR, China, Philippines, Australia, Canada, India, New Zealand, Netherlands, France—plus Pakistan and Burma. [Footnote in the source text.]

8. In our view the problem of Formosa and the Pescadores can be broken down into two main components: (*a*) the need for a responsible and stable administration on the islands during the present period while they are awaiting a stabilization of conditions in China and a final disposition at a Japanese peace settlement, and (*b*) the need for discovering what the desires of the islanders are with regard to their future so that a just and constructive decision can be reached in the peace settlement on the basis of the self-determination of the inhabitants of Formosa and the Pescadores. We do not feel that we should take the initiative in seeking a solution of these issues because (*a*) they are of more vital concern to the Philippines and its neighbors than to us, (*b*) were we to do so, we would lay ourselves open to charges of "Big Power intervention" and (*c*) our hands are more or less tied by the commitments we made at Cairo and our actions in facilitating Chinese assumption of control over the islands. While we are most reluctant to take the lead in this question, we will vigorously and fully support those states which will take action along the following lines:

a. Notification to all other powers at war with Japan that: The notifying states view with grave anxiety the mounting threat of chaos and civil strife spreading from the mainland of China to Formosa and the Pescadores; the Philippines recollect that it was only recently invaded and ravaged from those islands; the notifying powers cannot view without misgivings this new jeopardization of the security of all Southeast Asia; they therefore propose that the powers which are still legally at war with Japan should immediately concern themselves with the threatened turmoil in this part of the Japanese Empire which is still awaiting final disposition at a peace settlement; under Article 107 of the United Nations Charter,⁸⁸ this question is reserved for action by the powers which are at war with Japan. The foregoing notification should be released for publication.

b. Either in the same notification or in a separate statement to be issued simultaneously or shortly thereafter by all or any one of the above-mentioned notifying governments, the proposal should be made that, in view of the independent early history of Formosa and the Pescadores, of the shocking record of misrule during the past four years by the Chinese and of the many pleas from representative Formosans for autonomy, the powers which defeated Japan should promptly request the U.N. to conduct within one year a plebiscite regarding the ultimate disposition of the islands in accordance with the principles of self-determination. It should be further proposed that the U.N. be requested in conducting the plebiscite to place the following alternatives before the inhabitants of the islands:

- (1) Do you wish to be administered by (*a*) whatever government emerges on the mainland of China or (*b*) the present Chinese authorities on the island, or

⁸⁸ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031, 1053.

(2) Do you wish another form of administration: (a) trusteeship under the United Nations, (b) independence, (c) any other?

These proposals should likewise be made public.

9. The day following the notification recommended in paragraph 8, this Government should:

a. propose to the concerned governments (and announce publicly) that representatives of the states at war with Japan meet within one week's time at Manila or Canberra to act on the notification (Objections may be raised to this proposal on the basis of inconvenience. Having made it, however, we can then acquiesce to a conference of Ambassadors in Washington or London.);

b. announce publicly our reaction to the notification:

(1) The final disposition of Formosa and the Pescadores, parts of the former Japanese Empire, awaits a decision at a peace settlement with Japan;

(2) Formosa and the Pescadores are at present under Chinese military administration because the United States Government enabled the Chinese authorities at the time of the Japanese surrender to assume control over the islands, the decision to do this having flowed from the attitude expressed by the President in the Cairo Declaration;

(3) Subsequent events in China and in Formosa have not justified the assumptions on which these actions were taken: Chinese administration on the islands has been rapacious and oppressive and the chaos and strife which wracked and gutted China Proper now threaten to engulf these islands;

(4) It was certainly not the intention of the American people, whose forces liberated Formosa and the Pescadores at so great a cost in blood and treasure, that the Cairo Declaration and this Government's action in facilitating Chinese control of the islands should have resulted in the creation of a menace to the stability and security of Southeast Asia and in the suffering which has been endured by the people of Formosa during the past four years;

(5) Hoping that the Chinese administration on the islands might turn to more responsible and constructive policies, this Government has during the past four years scrupulously refrained from giving publicity to conditions on the islands and to the appeals for liberation made by representative Formosans to this Government;

(6) Confronted with further deterioration rather than improvement and with the likelihood that the strife and misery on the Chinese mainland will spread to Formosa and the Pescadores, this Government can no longer in good conscience remain silent and inactive;

(7) In view of all the foregoing, this Government declares its willingness to associate itself with the decision of the majority of the concerned powers regarding (a) the occupation and administration of the islands pending their disposition at a Japanese peace settlement and (b) the future political status of the islands based upon the results of the proposed plebiscite.

10. Simultaneously, we should prepare with utmost despatch and vigor to lay the groundwork for the meeting of the concerned powers. We should attempt to obtain an agreed position with all of them excepting the Russians and Chinese regarding the change in the occupation and administration of the islands, acquainting our friends of our willingness to carry the main weight of the military phase of the operation. To minimize the unilateral appearance of this operation, we should urge the Filipinos, Australians, Indians, Pakistanis, Canadians and New Zealanders to make at least token forces available for the military operation.

11. At the same time, we should seek the collaboration of the Filipinos in providing all possible facilities for Formosan autonomy groups to make their case known both on the islands and elsewhere through broadcasts, publications, . . . and other channels. . . .

12. At the meeting of the concerned powers, we should endeavor to insure that the change-over on the islands be undertaken two weeks from the convocation of the meeting. Details regarding the forthcoming operation should be decided upon at the meeting. If China and the U.S.S.R. are represented at the conference, it will be necessary to conduct the work of the conference outside of the formal conference sessions which should then be devoted only to forcing through agreed positions at the most rapid possible pace.

13. As soon as decisions to that effect are reached at the conference, we should establish naval and air patrols designed to prevent access to the islands from the mainland. At the same time, we should do everything possible to facilitate the flight elsewhere of undesirable Chinese political and military elements now on the islands, including ships to speed the exodus.

14. At this time, we should despatch an emissary to the key personality on the island, General Sun Li-jen. Because Sun, of all the generals on the island, has the least hopes on the mainland and is the most likely to resist a change imposed from without, he is capable of performing the desperate act of resisting vigorously. It would be judicious to present him with an opportunity for saving his position. He should be offered the alternative of declaring himself in favor of the Formosan cause and participating in the new occupation. If he accepts, we shall have made a major military gain in dividing the Chinese forces now on the island.

15. The Generalissimo should be informed that if he wishes to remain on the island, he will be accorded the status of a political refugee.

16. During the take-over and the subsequent administration of the island, we should avoid so far as possible a conspicuous role. We should

always remember that our aim is more to deny the islands to the Communists than to acquire responsibility for them and that our influence can be far more effectively exerted through indirect and discreet means rather than through unilateral heavy-handed measures.

893.00/7-649 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, July 6, 1949—10 a. m.
[Received July 6—9:06 p. m.]

270. Military conference over and according Governor Chen many things decided "in principle". Cited one his problems as Chinese Generals with American surface but no depth whose advice if followed would spell disaster for Chinese military. I wished his armies same success American armies under American system. Governor then said I would be pleased to know Taiwan forces were to be reduced to two or three armies to insure adequate food, housing, training et cetera.

Sun Li-jen also at July reception reiterated disillusionment, said conference produced nothing but words. He was returning immediately to Fengshan but would again be in Taipei in a few days to tell me something.

Sent Department 270; repeated Canton 114.

EDGAR

893.20/7-2349 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, July 23, 1949—10 a. m.
[Received July 24—4:04 a. m.]

309. Sun Li-jen last night told Edgar following:

Just returned from Foochow supervising installation 6,000 his trained troops. Number inadequate and as usual split group trained as unit. However, civilian welcome was good and immediately improved morale, other troops there underpaid and underfed. On leaving, Sun gave his troops personal guarantee adequate supplies.

Sun also excited prospect officer training 10,000 students 18 to 21 now Pintung and new indoctrination course for higher officers to renew will to fight.

Preparations started [garbled group] 320,000 troops supposedly on Taiwan. Board expects find 25 percent paper soldiers. After check groups will be consolidated into complete units and treatment improved. (Chen only told us about combining under-strength units.)

Sun been promised command defense of island but no order received. Claims Chen Cheng initiated supreme headquarters' idea to gain control Navy, Air Force and now, annoyed at creation of Political and Military Commissions, is refusing drop Governorship for new command in attempt at bargain. Yu Ta-wei⁸⁹ acceptable to Chen as Governor but Yu hesitant due Chen's practice of interference at low levels.

Sun described K. C. Wu as primarily politician trying please everyone, too cautious, afraid direct action (this criticism also heard in Shanghai too). Confirmed Wu report that Generalissimo now able hear criticism without anger but Sun less hopeful real basic improvement while some intimates continue on. Cited Wang Shih-chieh presence at Baguio. Fall of Canton will result further consolidating old guard, like wounded beast at bay.

Sent Department; repeated OffEmb Canton 132.

MACDONALD

894A.00/7-2749

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*⁹⁰

[WASHINGTON,] July 27, 1949.

Taipei's telegram no. 292 of July 18⁹¹ (attached as Tab A) reported a suggestion made to Consul Edgar at Taipei, Taiwan, by K. C. Wu, one of the Generalissimo's and Governor Chen's closest advisers and former Mayor of Shanghai. Wu said in effect that those Chinese leaders who are working for internal reform would be greatly assisted if you would call in the Chinese Ambassador and indicate those lines of reform which the United States believes would improve the situation on Taiwan.

I recommend that we act upon this suggestion. It will enable us usefully to place again on record our concern over the conditions which the Chinese have permitted to develop on the Island. And, coming from you, it may bring some constructive results.

Accordingly, I suggest that you call in Ambassador Koo and hand him the *aide-mémoire* attached as Tab B, preceded by an oral statement along the following lines:

"In response to a suggestion recently made to the American Consul at Taipei by one of the Governor's close advisers, I desire to present to you certain considerations which have been of concern to the Government of the United States of America with respect to the administra-

⁸⁹ Former Chinese Minister of Communications.

⁹⁰ Prepared for the Secretary of State but not presented to him; for explanation, see memorandum of August 3, p. 368.

⁹¹ Vol. VIII, "Political and military situation in China", chapter VI.

tion of the Island of Taiwan. It is unnecessary, I am sure, to remind your Excellency of the special interest of this Government in that Island arising from the part which American armed forces played in its liberation, as well as from the fact that the final determination of the Island's status necessarily awaits a peace settlement with Japan. The United States is deeply concerned lest the chaos on the Mainland spread to Taiwan. The United States hope is that the inhabitants of the Island should live in peace, security and prosperity under a regime which reflects their legitimate aspirations. Unhappily, the history of Chinese administration since VJ Day in Taiwan has fallen far short of the hopes of its people and of the expectation of the United States at the time that administrative responsibility was turned over to the Republic of China."

In order to assure that contents of the *Aide-mémoire* and the gist of your oral statement reach the Generalissimo in accurate form, I recommend that immediately after you have seen the Ambassador, the Department telegraph a report of the conversation and the text of the *Aide-mémoire* to our Consul General in Taipei for informal transmission to K. C. Wu.

[Annex—"Tab B"]

Draft Aide-Mémoire Prepared in Office of Far Eastern Affairs

The United States Government has watched with deep concern evidence of the deteriorating political and economic situation on Taiwan. There seems, however, much that could be done by resolute, liberal and far-seeing administration on Taiwan, to improve the people's livelihood and to render it secure against attack, either from within or without. In a spirit of friendly advice, there are listed below certain measures of self-help which the United States believes are necessary of achievement for the tranquility of Taiwan.

First, and foremost, it would seem that the numbers of civilian *émigrés* and mainland troops which have come to the Island in recent months should be reduced to the maximum extent possible in order that the self-sufficiency of Taiwan, with respect to food, should be restored and the Island spared the frictions and difficulties inherent in the presence of large numbers of idle troops. Your military authorities will know best the numbers necessary to assure law and order on the Island and to provide an adequate defense against any external assault. In the event that these requirements fall short of the total military personnel now on the Island, then an essential first step would appear to be the transfer elsewhere of the excess, accompanied or followed by their families, together with other civilians who are economically non-productive. This would correspondingly reduce the burden now placed on the food and other resources of Taiwan.

Secondly, it would seem that a concerted effort is necessary to stabilize the value of the Island's currency and thereby halt the inflation which by all reports has so drastically disrupted the economy of the Island in recent months. Such measures should include the increased taxes and improved tax collections methods to the end that all governmental expenditures, including those on behalf of the National Government, would be covered by revenue; a careful control of the extension of credit to truly productive loans and a conscious draft on the gold or other foreign exchange assets held on the Island in order to achieve an import surplus, with particular concentration on the importation of fertilizer and consumers goods.

Thirdly, an intensive effort should be made to increase and diversify the Island's exports in order to restore its position as an important earner of foreign exchange which should then be applied for the overall benefit of the Island's economy. This will require realistic pricing of export commodities, a drastic removal of restraints on the initiative and ingenuity of individual exporters and the assurance that the full foreign exchange value of such exportation will, in fact, accrue to the benefit of the exporters.

Fourthly, the land reform measures already instituted should be pushed forward vigorously and expanded to the end that tenancy is reduced and the net return of the individual producer increased.

Fifthly, steps should be taken to ensure the utilization of competent administrative personnel in all positions and effective delegation of authority and responsibility, particularly with respect to those civilian officials dealing with financial, economic and other matters requiring specialized knowledge and importantly affecting the economy and administration of the Island. Military participation or interference in the civil administration should not be permitted except in matters of internal and external security.

Finally, if the natives of Taiwan are to enjoy in fact the progressive achievement of their understandable and legitimate aspirations for an enlarging measure of self-government, then they must be increasingly and promptly brought into the political life of the Island and into positions of responsibility in its administration.

WASHINGTON, _____

894A.50/7-2849 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, July 28, 1949—3 p. m.

[Received August 1—6:57 a. m.]

326. During call on Wang Shih-chieh he remarked that economic and political stability difficult on mainland due hostilities but since

Taiwan is free from communism every effort must be made to maintain it on stable economic and political basis in order to make it stronghold against communism which is practically negligible among local population but deteriorating economic condition would encourage its growth. Wang said Governor Chen realizing this danger is determined improve Island's economy.

I pointed out high tariff on textiles, peanut oil, etc., formerly imported from Chinese mainland, placing undue hardships on Island and primary cause rise in prices those commodities now coming from foreign sources. Wang said readjustments tariffs now under consideration. Same information received other sources but no indication when new rates if approved will become effective.

I also referred to presence large number troops as heavy burden Taiwan economy as well as security danger. Wang not concerned re troops' loyalty but admitted economic problem and said Governor plans reduce military forces on Island including air and navy and something will be done within 1 month. This statement open to question. Secretary-General stated other way Governor decided reduce military units by combining units partially staffed which, however, would not constitute any reduction in number of troops.

It is my impression from conversations with officials during past week that, although a decision has been made to try improve Taiwan administration and economy, a plan has not yet been formulated.

Sent Department, repeated Canton 138.

MACDONALD

894A.00/7-2749

Memorandum by Mr. Livingston T. Merchant, of the Office of Far Eastern Affairs, to the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] August 3, 1949.

I return herewith for CA's files FE's Secret memorandum of July 27, 1949 to the Secretary regarding an approach to Ambassador Koo and attaching an *aide-mémoire* on the subject of Taiwan.

Mr. Rusk originally approved this for submission to the Secretary but at a meeting on August 2 with Mr. Kennan, Mr. Rusk, Mr. Butterworth and myself it was finally agreed that it would be unwise to make this *démarche* in the teeth of the publication of the White Paper.⁹² I presume the appropriate resting place for the effort is now the files.

L[IVINGSTON] T. M[ERCHANT]

⁹² For correspondence regarding publication of the White Paper, see pp. 1365 ff.

894A.00/8-449

*Memorandum by the Department of State to the Executive Secretary
of the National Security Council (Souers)⁹³*

WASHINGTON, August 4, 1949.

Subject: Current Position of the U.S. With Respect to Formosa

1. Developments in Formosa since our present policy was determined upon make it desirable now to reexamine our situation.

2. To attain our main objective with respect to Formosa and the Pescadores—the denial of the islands to Communist control—current policy directives, as set forth in NSC 37/2⁹⁴ and NSC 37/5,⁹⁵ call for (1) developing and supporting a local non-Communist Chinese regime which will provide at least a modicum of decent government for the islands, (2) discouraging the further influx of mainland Chinese, and (3) maintaining discreet contact with potential native Formosan leaders in the event that some future use of a Formosan autonomous movement should be in the United States national interest.

3. NSC 37/5 further directed that on receipt of assurances from the Governor of Formosa that the local authorities are prepared to implement the United States representations set out in paragraphs 1 and 2 of NSC 37/2, the Department of State officer detailed to Formosa for this purpose should inform the Governor that the United States is prepared to assist in developing and maintaining a viable, self-supporting economy on the island, and the ECA should thereafter proceed with arrangements which will contribute to these objectives. Finally, NSC 37/5 determined that units of the United States fleet should not now be stationed at or off Formosan ports in support of the political and economic measures envisaged above.

4. On April 8 and May 18 the Secretary of State submitted to the National Security Council interim reports on the implementation of NSC 37/2 and NSC 37/5. Since developments on the Island suggested the desirability of reconsidering our policy, the United States official especially detailed to Formosa was recalled for consultation. The major changes which had occurred since approval of NSC 37/5 were: (1) The renewed mass movement to Formosa from the mainland of troops and civilian refugees, with a correspondingly serious inflationary impact on its economy; (2) the breakdown of peace negotiations between the Nationalists and Communists, with fighting renewed on the Yangtze, thereby reducing the possibility of a transfer of Formosa by negotiation to a Communist-controlled coalition government on the mainland; and, (3) a deepening of the feud between the Generalissimo

⁹³ Circulated by the National Security Council as NSC 37/6 on August 5.

⁹⁴ February 3, p. 281.

⁹⁵ March 1, p. 290.

and the Acting President, with the Generalissimo and his immediate supporters firmly in control of Formosa. Under these circumstances, with hope declining for the installation of an effective and liberal administration on the Island and with a drastic inflation in progress, it was decided to confine ECA economic assistance to the importation of consumers' goods, principally fertilizer and cotton, and to the Joint Commission for Rural Reconstruction activities rather than proceed with a capital reconstruction program which would have further fed the inflation. The Governor of Formosa was informed of the serious view the United States took of the continued influx of refugee civilians and demoralized troops. Recommendations were made to him and his advisers on economic and other matters designed to improve the economic situation. The Governor did not ask for increased economic aid nor were any promises given him that such would be forthcoming.

5. Following the arrival of the Department's representative in Washington, a further assessment of our position has been made. We face on Formosa today a situation analogous to that which confronted us on the mainland of China a year ago. The government in power is corrupt and incompetent. It lacks the will to take the necessary political and economic steps to modify the deep and growing resentment of the Formosans. The burden of supporting the mass of Nationalist troops and governmental establishments is now so great as to accelerate the economic disintegration of the island. Moreover, economic aid from outside cannot in the absence of a basic change in the government alter or cure this situation, and so long as it endures the ultimate passage of Formosa under Communist control, by external or internal action, appears probable.

6. The Governor of Formosa has reiterated his intention to resist any Communist assault on the island. The forces on the island appear numerically sufficient provided they will fight. It is also believed that the Governor now controls sufficient troops to suppress any native insurrection. The most serious risk of a turnover of the island to the Communists lies in the possibility of widespread mutinies by disaffected Nationalist troops recently landed from the mainland and estimated now to have brought the total to the neighborhood of 300,000, or in deals with the Communists on the part of top military commanders. Such a development could occur at any time and would confront us with a *fait accompli* which only military force could reverse.

7. In view of the foregoing developments, and since there now appears no certain assurance that these islands can be denied to Communist control by political and economic measures alone, the Joint Chiefs of Staff should be asked to review their memorandum dated February 10, 1949, on the strategic importance of Formosa to the United

States. Upon receipt of the current views of the Joint Chiefs of Staff, the NSC would be in a position to review the present policy in Formosa after considering the strategic factor and all political implications arising from our present global foreign policy. It would be helpful if the reexamination of the strategic factor by the Joint Chiefs of Staff would include a reply to the following question: Under conditions short of war and on the assumption that in the absence of military measures Formosa and the Pescadores will sooner or later come under Communist control, do the Joint Chiefs of Staff regard these islands as of sufficient military importance to the United States to commit U. S. forces to their occupation? It would also be of assistance if, in answering this question, the Joint Chiefs of Staff would take into account, among other factors, the following possible variations of the situation as it might be encountered: (a) Occupation in the face of initial opposition from Nationalist forces on the island or later attack from the mainland by the Communists; (b) occupation by agreement with the existing authorities on the island with implicit responsibility for the maintenance of internal security and external defense.

8. Meanwhile, it is intended (1) to continue to exert our diplomatic influence to confirm the Governor in his will to resist and, concurrently, urge the adoption of constructive political and economic measures designed to quiet unrest and reduce Formosan susceptibility to Communist propaganda; (2) to maintain an ECA program of present moderate proportions concentrated on the import of fertilizer and other consumers goods, JCR activities and engineering advice but not activating the suspended industrial reconstruction program; and (3) to discuss this problem informally with selected governments, particularly the British, with a view to securing their views and laying the ground work for possible future joint or concerted action within or without the framework of the United Nations.

Recommendation

It is requested that the Joint Chiefs of Staff as a matter of priority advise the National Security Council as to the United States military interest in Formosa along the lines set forth in paragraph 7 above.

893.50 Recovery/8-449

The Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Assistant Administrator for Program of the Economic Cooperation Administration (Cleveland)

WASHINGTON, August 4, 1949.

DEAR HARLAN: I am writing you at this time in continuance of our several conversations regarding the status of Formosa and the

general policy which the Department believes should guide, at this time, ECA operations on the island.

The Department has requested the National Security Council to reconsider existing United States policy with respect to Formosa in the light of developments in the past two to three months. Specifically, the Department has requested that the Joint Chiefs of Staff submit to the National Security Council, their present estimate of the strategic importance to the United States of Formosa, particularly in light of the very real possibility that it will ultimately pass under Communist control in the absence of positive action on our part. I imagine that it will be several weeks before the Joint Chiefs will have submitted their reassessment on the basis of which the National Security Council will presumably then reconsider and restate our policy.

In the interval, the Department regards it as desirable that ECA continue without interruption or major change its present activities on the island. These are understood to include the importation of fertilizer and general supervision of its distribution, utilization of the services of the J. G. White Engineers, for general advice with respect to the operation of the island's economy, continued distribution of the CRM⁹⁶ medical supplies and moderate quantities of cotton, flour, etc., and finally, the continuation of the JCRP program on Formosa. It would also seem desirable that additional tonnages of fertilizer be programmed for delivery in time for the 1950 rice crops. All of these activities, as I understand it, are going forward.

Without attempting to prejudice any later decision of the National Security Council, it remains the view of the Department that no steps should be taken at this time to activate the industrial reconstruction program.

Sincerely yours,

WALTON W. BUTTERWORTH

893.50 Recovery/8-449 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 4, 1949—5 p. m.
[Received August 5—11 : 54 p. m.]

353. K. C. Wu, in discussing means of maintaining stable economy for Taiwan, suggested that 50 million dollars of ECA China money not yet used be allotted Taiwan as follows: 30 million for fertilizers and 10 million each for power and transportation. He claims this would insure economic stability for coming year during which time plans and trade agreements could be worked out so that Taiwan would be able stand on own feet. He is enthusiastic about his scheme and has

⁹⁶ China Relief Mission (American).

written to Secretary State's brother⁹⁷ regarding it with request he approach Secretary Acheson.

Wu's figures respect Taiwan requirement for fertilizer much too high and, according Craig, ECA 5 million would be sufficient. Transportation and power figures also excessive.

In considering any aid for Taiwan it must be remembered that too much financial assistance can be as bad or worse than none in creating inflation. I would not take Wu's plan too seriously. It is extravagant and fails to provide means whereby Taiwan might share some of the costs. Airgram follows.⁹⁸

Sent Department 353; repeated Canton 160.

MACDONALD

893.50 Recovery/8-1249

The Acting Assistant Administrator for Program of the Economic Cooperation Administration (Cleveland) to the Director of the Office of Far Eastern Affairs (Butterworth)

WASHINGTON, August 12, 1949.

DEAR WALT: This will acknowledge receipt of your letter of August 4, 1949, outlining the views of the Department on current ECA operations on Formosa.

The activities described in your letter include the principal current ECA activities on Formosa. In the past, ECA has also financed a supply of crude petroleum for the Kaohsiung refinery and other petroleum products in small quantities. We now have under consideration financing a reduced supply of crude petroleum in an amount only sufficient to enable the refinery to supply the needs of the Formosan economy for petroleum products.

Approval has also been given to use Hong Kong dollars derived from the sale of yarn manufactured from ECA-financed cotton to complete the calcium cyanamid plant of the Taiwan Fertilizer Company (already 90% completed) under the supervision of the staff of the J. G. White Engineering Corporation, and similar assistance may be given in connection with the erection of another small fertilizer plant.

The program of the Joint Commission on Rural Reconstruction on Formosa has been on a relatively minor scale. Dr. Raymond T. Moyer, who is concurrently the Administrator's representative with respect to JCRR matters and one of the American commissioners appointed by the President, has recently been advised that it would be appropriate to enlarge JCRR operations on Taiwan to a scale comparable to that of operations now being carried on or planned for the mainland.

⁹⁷ Edward C. Acheson.

⁹⁸ No. A-72, August 4, not printed.

ECA has under consideration the procurement of additional ton-nages of fertilizer for delivery in time for the 1950 rice crops, as you suggest. However, previous arrangements for the distribution of fertilizer on Formosa have not been completed in a manner wholly satisfactory to ECA. If a satisfactory program governing the use of additional fertilizer cannot be agreed upon soon, it may be necessary to consider whether the desirability of providing such additional quantities of fertilizer to Formosa outweighs the danger that such fertilizer may be allocated in a manner which we believe undesirable and not in the interest of the Formosan economy. Before reaching a final decision on this matter, we will consult with the Department.

We shall appreciate it if you will advise us if any of the activities described above deviate from the policy which the Department believes should guide ECA operations on Formosa for the present.⁹⁹

Sincerely yours,

HARLAN CLEVELAND

894A.00/8-1849: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, August 18, 1949—7 p. m.

[Received 11:54 p. m.]

399. Fall of Foochow and North Islands causing local despair. To-day both T. Y. Liu of Taiwan Power and local American businessman expressed general intelligent opinion saying when coast goes Taiwan is doomed unless US takes positive action. Internal conditions here such as make frontal attack unnecessary. Both asked separately if US fully appreciated shortness of time available as well as general local willingness support any American move, even preliminary token nature.

Sent Department; repeated Canton 192.

EDGAR

Executive Secretariat Files

Memorandum by the Under Secretary of State (Webb) to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, August 19, 1949.

Subject: Implementation of NSC 37/2¹ and NSC 37/5.²

Pursuant to NSC Action No. 123, October 6, 1948, as amended, the following progress report on the implementation of NSC 37/2, "The

⁹⁹ In a letter of August 26, the Deputy Director of the Office of Far Eastern Affairs (Allison) replied that these activities were in accord with the present policy regarding Taiwan.

¹ February 3, p. 281.

² March 1, p. 290.

Current Position of the United States with Respect to Formosa", and NSC 37/5, "Supplementary Measures with Respect to Formosa", is submitted for the information of the Council :

The Department of State, in a letter of August 4, 1949,* requested the National Security Council to reconsider existing United States policy with respect to Formosa in the light of developments in the past two to three months. Specifically, the Department has requested that the Joint Chiefs of Staff furnish the National Security Council their present estimate of the strategic importance to the United States of Formosa, particularly in light of the very real possibility that it will ultimately pass under Chinese Communist control in the absence of active intervention on the part of the United States.

Following the return to Washington for consultation of Mr. Livingston T. Merchant, Counselor of Embassy on detail at Taipei (Formosa), the Department has assigned Mr. John J. Macdonald as Consul General at Taipei. Mr. Macdonald arrived at his post on July 19, 1949.

In the meantime, the Department has requested ECA to continue without interruption or major change its present activities on Formosa. These include the importation of fertilizer and general supervision of its distribution, utilization of the services of the J. G. White Engineering Corporation staff in providing technical assistance to certain Formosan industries, general advice with respect to the operation of the island's economy, continued distribution of the Chinese Relief Mission medical supplies and moderate amounts of cotton and flour and the continuation of the rural reconstruction program on Formosa. The Department has indicated the desirability of ECA's programming additional tonnages of fertilizer for delivery in time for the 1950 rice crops. ECA is also giving some assistance to the Formosan Provincial Government in negotiations with SCAP in connection with the barter of Formosan sugar and coal for Japanese manufactures and has agreed to the use of funds derived from the sale of cotton yarn made from ECA-financed cotton to complete a calcium cyanamide plant, which was already 90 percent complete, the operation of which will add 20,000 tons of fertilizer to existing local production. This work will be carried out under the supervision of the J. G. White Engineering Corporation. No steps have yet been taken to activate the industrial reconstruction program.

JAMES E. WEBB

*NSC 37/6 [Footnote in the source text; see memorandum of August 4, p. 369.]

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers)*

NSC 37/7

[WASHINGTON,] August 22, 1949.

THE POSITION OF THE UNITED STATES WITH RESPECT TO FORMOSA

Pursuant to the recommendation by the Secretary of State contained in NSC 37/6,³ the Secretary of Defense was requested to obtain the advice of the Joint Chiefs of Staff as to the United States military interest in Formosa along the lines set forth in paragraph 7 of NSC 37/6.

The enclosed views of the Joint Chiefs of Staff on the subject are circulated herewith for the information of the National Security Council in reviewing the present policy in Formosa, as suggested by the Secretary of State in NSC 37/6.

The enclosure is also being referred to the National Security Council Staff for use in connection with the preparation of a report on United States Policy toward Asia, pursuant to NSC 48.^{3a}

SIDNEY W. SOUERS

[Enclosure]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense
(Johnson)*

WASHINGTON, 17 August 1949.

Subject: The Position of the United States with Respect to Formosa.

In accordance with your memorandum, dated 9 August 1949, the Joint Chiefs of Staff submit the following comments, together with specific responses to the questions in NSC 37/6, a memorandum from the Secretary of State to the Executive Secretary, National Security Council, dated 4 August 1949, on the subject of "Current Position of the United States with Respect to Formosa".

The Joint Chiefs of Staff have, as requested, reviewed their memorandum, dated 10 February 1949,* and their clarifying memorandum of 22 March 1949,† both on the strategic importance of Formosa. They remain of the opinion that Formosa is strategically important to the United States for the reasons set forth in the second and third para-

³ See footnote 93, p. 369.

^{3a} For documentation on the NSC 48 series, see volume VII.

*NSC 37/3. [Footnote in the source text; see note by Souers, February 11, p. 284.]

†Memo for NSC from Executive Secretary, subject, "The Strategic Importance of Formosa", dated April 4, 1949. [Footnote in the source text.]

graphs of their memorandum of 10 February 1949. Since that date, the continuing sweep of Communist conquest in China has strengthened this view.

The Joint Chiefs of Staff, however, must reaffirm their earlier opinion that the strategic importance of Formosa does not justify overt military action, in the event that diplomatic and economic steps prove unsuccessful to prevent Communist domination, so long as the present disparity between our military strength and our global obligations exist, a disparity that may well increase as a result of budgetary limitations and the commitments implicit in the North Atlantic Treaty.

Therefore, replying specifically to the major question in paragraph 7 of the Secretary of State's memorandum of 4 August 1949, the Joint Chiefs of Staff do not regard Formosa and the Pescadores as of sufficient military importance to the United States, under the circumstances set forth above, to commit United States forces to their occupation under conditions short of war and on the assumption that in the absence of military measures these islands will sooner or later come under Communist control.

With respect to the suggested possible variations of the situation as it might be encountered:

a. Occupation, in the face of military opposition from Nationalist forces or later attack from the mainland by the Communists, is definitely not recommended since such a situation could easily lead to the necessity for relatively major effort, thus making it impossible then to meet more important emergencies that might develop elsewhere; and

b. Occupation by agreement with the existing authorities on the islands, with implicit responsibility for the maintenance of internal security and external defense, would not be so direct a step toward military embarrassment as the variation in subparagraph *a* above. This form of occupation, however, assuming that it could be arranged under our present relations with the Chinese Nationalists, is also not recommended since it would be a commitment which could hardly be reversed if quite possible developments demanded further military commitment, extending again to relatively major effort.

Although the Joint Chiefs of Staff are of the opinion, on balance, that if Communist domination of Formosa cannot be denied by diplomatic and economic steps, military measures instead of or in support of diplomatic and economic efforts would be unwise, they must point out, as they have previously stated, that future circumstances, extending to war itself, might make overt military action with respect to Formosa eventually advisable from the over-all standpoint of national security. They believe that it is better, however, to face this future contingency as one of the many military problems that must be considered in the event of incipient or actual overt war than to risk

undue military commitment in the Formosan area under present circumstances.

With respect to the requested comments from the military point of view on other pertinent aspects of the Secretary of State's memorandum, the Joint Chiefs of Staff believe:

a. That the probabilities of the Formosan situation make it more than ever necessary that every effort be made to forestall any weakening of the over-all United States position with respect to the Philippines, the Ryukyus, and Japan, in view of the greatly magnified importance of retention of our off-shore control in the Western Pacific area as a result of developments on the Asiatic mainland;

b. That the Formosan situation, as a part of the whole Asiatic problem, is pertinent to the consideration that is now being given to our over-all Asiatic policy by the National Security Council; and

c. That the suggested possibility of future joint or concerted Formosan action with other governments within or without the framework of the United Nations would, from the military viewpoint, have serious implications in that our military involvement in Formosa might differ little in degree from that envisaged as a result of unilateral occupation.

For the Joint Chiefs of Staff:

OMAR N. BRADLEY

Chairman

Joint Chiefs of Staff

894A.00/8-2549: Airgram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 25, 1949.

[Received September 5—10: 58 a. m.]

A-86. Despite almost daily public executions of disturbers of public order, the local situation appears to continue to deteriorate. The residence of one of the Consulate's officers has been entered and robbed and attempt on another made.

The residence of a locally established American citizen has been forced by military personnel who departed only after lengthy negotiations.

A British resident has been forced to purchase towels and pens from Chinese soldiery under threat of reprisals. (This recalls to mind the use of the same technique in Shanghai last year.)

The Consulate General has been requested by some Americans to issue placards for display on American occupied premises. Such placards were prepared some time ago when the first trouble was encountered with soldier refugees from the mainland but never issued due to an apparent easing of the situation. However it has appeared

that issuance is now advisable and they are being distributed on application. Their content is in accordance with standing instructions.

MACDONALD

893.50 Recovery/8-2949: Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, August 29, 1949—7 p. m.

269. Dept unno instr Aug 9.⁴ For your info, JCS views previously expressed in memo Feb 10 to NSC have been reaffirmed and clarified in JCS memo to NSC contained in NSC 37/7 Aug 22. Copy this document being forwarded soonest.

ACHESON

894A.00/8-3049: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 30, 1949—3 p. m.

[Received August 30—5:37 a. m.]

429. During long talk with Wang Shih-chieh this morning he made the following statement:

1. British attitude in Hong Kong of flirting with Communists for trade very annoying and detrimental to Nationalist Govt. Wang feels British definitely anti-Nationalist but believes they will have severe internal Communist troubles Hong Kong. He takes strong anti-British attitude.

2. Wang expressed concern regarding news stories during past few days regarding US plans to occupy Formosa and reported discussion regarding future of Taiwan between Wu Te-chen⁵ and General MacArthur during latter's [*Wu's*] visit Tokyo. Wang feels Communists responsible for some of these stories but said he is under impression due to letter just received from a friend in Washington that Formosa has been considered in recent high level Washington discussions. He inquired if I had any information on subject or regarding progress of Committee of Three⁶ studying our Far Eastern policy. He assumes Formosa is one of the topics of discussion by Committee of Three. I replied that the United States is definitely interested in the political and economic stability and security of Taiwan and anxious to see it

⁴ Not printed.

⁵ Chinese Minister Without Portfolio.

⁶ Committee made up of Ambassador at Large Philip C. Jessup and consultants Raymond B. Fosdick and Everett Case; see Department of State *Bulletin*, August 22, 1949, p. 279.

kept out of Communist hands. I pointed out that it has been the policy of the US to assist the Nationalist Govt to strengthen Formosa against communism and to that end gave and is giving economic assistance through ECA and JCRR. I assured him I knew nothing of alleged military occupation plans and regarded recent reports as pure newspaper stories and rumors.

3. There is considerable weakness in the army's officer corps according to Wang and many officers have lost their will to fight. He said a new spirit must be instilled in the officers and [he] advocates replacing many older army commanders with younger men.

4. Wang said Generalissimo has no intention of resuming position of President but he is going to assume a much more active part in national affairs than during the first few months after his retirement. (There has been plenty of indication of this already.)

5. Wang reverted to US China policy and asked if I knew when the report of the Committee of Three would be finished. He said he hopes our future China policy will be bi-partisan. While appearing slightly impatient with the delay in announcing a new China policy, Wang gave impression of being confident that additional American aid will be forthcoming.

Sent Department, repeated Canton 198.

MACDONALD

894A.00/8-3049

The Consul General at Taipei (Macdonald) to the Secretary of State

No. 51

TAIPEI, August 30, 1949.

[Received September 12.]

SIR: I have the honor to report that despite the high-sounding statements being made currently by China's leaders, even now when it is way past the eleventh hour the usual series of military jurisdictional fights and scrambles for power continue in Taiwan. No firm decisions are being made which could be classified as constructive, and all emphasis is being placed on the creation of new and imposing headquarters, new commands, and new advisory commissions.

As has happened in the mainland, this jockeying for position and this emphasis on form rather than substance is undermining the stability of Taiwan and rapidly preparing it for any communist action, from within or without, which may be opportune. Even the local controlled press is making comment on the situation.

[Here follows detailed description of rivalry for power among military leaders on Taiwan.]

In summary, because of the character of Chen Cheng, combined with the presence here of Chiang Kai-shek, the island of Taiwan, at the very time when every effort should be made to strengthen it internally and externally against communist aggression, appears to be rapidly falling apart at the seams politically, economically, and militarily and ripening for Communist take-over. Even educated Chinese who are well aware that the inevitable never happens in China and that most crises evaporate before they occur, are convinced of Taiwan's eventual loss, and those so able are laying rapid plans for a further personal retreat from the communists.

Respectfully yours,

JOHN J. MACDONALD

894A.01/8-3149 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 31, 1949—5 p. m.

[Received August 31—10:53 a. m.]

437. At brief meeting Wang Shih-chieh expressed himself, according to Chiang Mon-lin, chairman JCRR, as being interested and in favor of some type of joint Sino-American administration for Taiwan in order to have US protection and keep out the Communists. Chiang Mon-lin stated that he is under the impression that Wang was expressing the opinion of a considerable group of prominent thinking Chinese political leaders, and thinks that some approach along such lines might be made to the US. Reference is made to mytel 429, August 30 re conversation with Wang Shih-chieh.

In my opinion any Sino-American joint administration in Formosa would be doomed to failure if Generalissimo continued exercise any authority or influence. If he were forced to get out and stay out of picture entirely, no reason for Sino-American administration not being successful.

MACDONALD

894A.00/9-249 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 2, 1949—5 p. m.

[Received September 2—9:46 a. m.]

444. An American citizen on the Sino-American geological survey group informed me that prominent Formosan businessman told him there is a widespread rumor moving around the island that I was sent here to foment a revolt in order to give the United States an excuse to occupy the island on the grounds of preserving peace in the Pacific.

According to this rumor, I am supposed to be contacting the dissident elements and giving them instructions for the coming uprising. Formosan informant said this rumor has undoubtedly reached Chinese officials and he believes the Government will endeavor to increase circulation of rumor as it will provide good excuse for arresting members of independence and other dissident groups.

MACDONALD

894A.01/9-649: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 6, 1949—8 a. m.

[Received September 5—11:01 p. m.]

3655. Re Contels 3617, 3652 and 3653.⁷ While part of general Communist propaganda, these editorials merit special attention as reflecting deep and highly aroused suspicion over US intentions re Taiwan. From comments, rumors and queries presented to us almost invariably in our talks with Chinese since takeover, as well as from study of press, it has been clear that local Chinese interest in America's Chinese policy has been increasingly directed toward Taiwan; that, *pari passu* with Communists progress toward conquest mainland and occupation sea coast opposite Taiwan, Communist and third party apprehension re our policy has tended increasingly to center on suspicion that our present future action Taiwan is devoted to active furtherance armed opposition to CCP—if not through support Generalissimo, then through other means (*coup d'état*, Japanese mercenaries, US Naval base, Chennault fliers, et cetera). Communists conquest Fukien, their growing interest in ending Kmt naval and air operations (staged from Taiwan), implications as to American policy read into White Paper press releases,⁸ and apparently authentic reports re statements by officials American Government re “legalistic” argument Taiwan technically not subject Chinese sovereignty until peace treaty with Japan appear to have combined to bring excitement to crisis reflected in editorial outburst cited.

ConGen has heard through several well placed sources that Lo Lung-chi,⁹ upon arrival Peiping, had long discussions with Mao Tse-tung,¹⁰ in which he vainly attempted persuade Mao of desirability reaching *modus vivendi* with West democracies. According one source, Mao was adamant there could be no thought of this until America

⁷ None printed.

⁸ See Department of State *Bulletin*, August 15, 1949, p. 236; September 5, 1949, pp. 350 ff.

⁹ A leader of the Democratic League.

¹⁰ Chairman of the Central Committee of the Chinese Communist Party.

abandoned all support Kmt and "her designs on Taiwan". While we cannot vouch truth this story, we do know that locally manifested Communist hostility to American policy is more and more concerned with Taiwan; and that our "liberal" contacts who have privately ventured occasional mild defense of US in Communist circles, are increasingly anxious for some public statement by American Government on Taiwan which would strengthen their position. Meanwhile difficulty of replying to ever more insistent queries and accusations re Taiwan is becoming embarrassing.

While realizing that public clarification our Taiwan policy may be impracticable this stage, ConGen would be grateful for any help Department could give us toward meeting inquiries and charges—inform of either actual indications of policy texts US Government official statements re Taiwan, background information, or suggestions re best means of parrying approaches.

Sent Department 3655, repeated Nanking 1915; OffEmb Canton 1080.

McCONAUGHY

894A.00/9-649 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 6, 1949—2 p. m.
[Received September 6—5:30 a. m.]

446. Philip Huang (also known as Philip Ng), prominent among independence leaders and not to be confused with Peter Huang, called yesterday and made following statements:

True feeling of Formosans according to Huang is to rid island of all mainland Chinese. Formosans do not want Kmt, Communists or any other Chinese as rulers. Independence is their ultimate goal.

Chinese Communist agents have been entering Taiwan during past year and half and are working among students and other groups, recently taking line that Communists will grant Taiwan autonomy after defeat of Kmt. Huang claims many students believe this and there is growing feeling among Formosans that it might be advisable to use Communists as means of getting rid of Nationalist Government. This statement may be considered also as a veiled threat.

In reply to my question whether Taiwanese would cooperate with Kmt in resisting Communists if present government promised wide reforms and more participation in government by Formosans, he replied in negative and said nothing short of a miracle would make them forgive Kmt for past record or induce them to cooperate.

Huang claims a Communist take-over soon is inevitable unless UN intervenes. Defeatist attitude growing daily is much in evidence. He is of opinion that Chinese armies on island will turn over to Communists and even thinks there is a strong possibility of them revolting against present regime upon fall of Canton.

Huang made no reference to US intervention or SCAP administration for Taiwan. He took line that UN should settle issue by removing Chinese administration and agreeing to an independent Taiwan.

Huang may sound alarmist regarding Communist take-over and predicted defections on Formosa. However, serious decline in morale evident during past few weeks. Defeatist attitude steadily growing accompanied by increasing animosity for Kmt. Island also rife with rumors of pending Communist invasion, local uprisings and possible defection Nationalist troops as soon as Communists attack. Situation is so confused that any prediction of future events would be ridiculous and anything may happen. No apprehension is evident among higher echelon Nationalist officials and Generalissimo's headquarters, but I have been told by members my staff that lower ranking Nationalist Government officials expressing opinion Communist take-over Taiwan inevitable and apparently resigned to fate.

MACDONALD

894A.00/9-649 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 6, 1949—3 p. m.

[Received September 6—9 : 02 a. m.]

447. K. C. Wu called yesterday and, following general conversation of no particular importance, asked me what I thought of rumors of American intervention in Taiwan. I told him that I was rather surprised that these rumors were so widespread and that so many people have been taking them seriously and even asking the Consulate for confirmation. I also said I thought it unfortunate that these rumors were circulating so widely. He agreed that they did not help the situation and said that he believed they could be traced to certain independence groups. Dr. Wu believes that Hsu Pin [-tien], also known as Ko Pien, is largely responsible for the rumors. He is the leader of the pro-Japanese groups and, according to Wu, has hopes of an important position under any occupation government. Some of these rumors go so far as to set the date of September 15 for American takeover.

MACDONALD

894A.00/9-749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 7, 1949—8 p. m.
 [Received September 7—7:51 a. m.]

453. Kunming defection started chain of rumors on future of Taiwan. Most recurrent say SCAP will bring forces here October 15 to thwart Communist take-over. Many natives fear army revolt and local massacres and are moving from town. Wealthy Chinese refugees continue to leave island. Provincial government taking many steps buy loyalty troops here such as 100 percent pay increases, etc., etc. Chen Cheng during week made several public statements on local stability and oneness of Taiwan with China but local fears continue to mount. Economy continues stable but with apparent strains. Arrests and police checks on increase.

Taiwanese believe trouble imminent and inevitable. Claim anti-Chinese feeling much greater than February 1947 and bloodbath will be greater. We concur, except for imminence, since many forces would presumably join melee: defecting troops, loyal troops, Communist civilians, Taiwanese independence groups and also pro-Communists, and Chinese mainlanders now here all having separate hatreds, prejudices and purposes. Strength Communist organization still uncertain but in confusion, smart group could grab reins. Any one of several things could start trouble at any one of several times.

Sent Dept 453, repeated Nanking 204.

MACDONALD

894A.01/9-649 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 8, 1949—5 p. m.

1824. Ur 3655 Sept 6, rptd Nanking 1915, Canton 1080. Dept believes in meeting inquiries and charge re Taiwan you could well emphasize that US neither has nor seeks milit bases or special privileges of any kind on island and that there are no Amer armed forces thereon. US is attempting assist Taiwanese to increase productivity and improve living conditions on island thru ECA and JCRR. For this assistance, as in the case of similar assistance to mainland China, it is neither seeking nor receiving special concessions or privileges of any kind. You might at same time suggest contrast this with Sov[iet] record in Sinkiang, Outer Mongolia and Manchuria.

For ur info only Dept and other concerned agencies of Govt studying all aspects Taiwan problem but not prepared at present make any public statement thereon.

ACHESON

894A.00/9-849

The Consul General at Taipei (Macdonald) to the Secretary of State

No. 57

TAIPEI, September 8, 1949.

[Received September 19.]

SIR: I have the honor to report that Hwang Taiam Leong, President of the Entai Trading Corporation, who is a very wealthy Formosan merchant, Mr. C. F. Chien, Chairman of the Taiwan Tea Association, Mr. Hsu Pin Tien, also known as Ko Pien and Kyo Hei, who was a former member of the Japanese Diet and leader of the pro-Japanese independence movement and his son, Kyo Hakn En, who is an important local merchant and banker, invited me to lunch in order to discuss the political situation in Taiwan.

They referred to the current rumor that SCAP is coming to Formosa and asked me if I had any information regarding the date of the change in administration or other details concerning SCAP occupation. When I told them that SCAP is not coming to Formosa, they expressed considerable disappointment and expressed some doubt regarding my statements. During the course of the conversation they frequently referred to SCAP and General MacArthur, making such statements as: "Certainly General MacArthur realizes the importance of Formosa in the United States Pacific defense plans and will take over before the Communists arrive," "SCAP cannot allow us to fall into the hands of the Communists," and "Even the farmers are patiently waiting for American troops to arrive." The Formosans wishful thinking regarding United States occupation is so strong that the majority of people actually believe the matter is settled and that American troops will arrive sometime between September 15 and October 10, 1949.

Mr. Hsu Pin Tien went into a lengthy academic discussion of Russia's aim for world domination. He said that Russia had a very fluid policy and bides its time in waiting for a weak spot or a political vacuum where it can further its policies and establish a Communist regime. China has been a perfect field for Communist expansion and as the Reds take over more of China other Asiatic countries weaken and become a prey for Communist aggression. In order to save Asia from Communism it must be checked now in China. He pointed out that the United States has been successful in preventing the spread of Communism through Western Europe and can do the same thing in

Asia. He said the Formosan people are powerless to do anything themselves to combat Communism on the Island. They are unorganized, have no defense force of their own or weapons, and are at the mercy of the Nationalist Government that has no real interest in the welfare of Formosans and tries to keep them down. Therefore, he said the people of Formosa are looking towards the United States who always champions the cause of small, defenseless nations to come to the rescue of Taiwan.

They discussed the possibility of presenting their case to the United Nations but find they are confronted with insurmountable difficulties. There is no organization representative of the majority of the people that could present a petition to the United Nations. Furthermore, the Chinese Government authorities would not allow such a petition to be transmitted to the United Nations and persons associated with a movement of that sort would be in danger of their lives. Mr. Hsu is in constant fear of imprisonment and was arrested when the Chinese took over Taiwan and spent 18 months in jail. Inasmuch as the Formosans feel they are thwarted and powerless to help themselves they hope that the United States will either step in and keep out the Communists or sponsor their case in the United Nations.

Mr. C. F. Chien, Chairman of the Taiwan Tea Association, was more outspoken in expressing his opinion about the United States and Taiwan. He claims that the United States, as a signer of the Cairo Declaration, has a definite moral responsibility to protect Formosa against the Communists. The people of Taiwan do not want to fall into the hands of the Communists which they are bound to do if the administration of the Island is not taken away from the Nationalist Government. Mr. Chien feels strongly that the will of six million Formosans should be considered and, inasmuch as the United States as a participant in the Cairo Declaration is one of the nations that got the innocent people of Taiwan into this "mess", it is morally bound to accept its responsibility and to protect these defenseless people from the Communists. He said they have suffered enough during the past four years under the Chinese and that every Formosan, from the richest merchant and land owner to the poorest peasant and coolie, is expecting the United States to save them from Communism. People of Taiwan, according to him, look upon the United States as a great, powerful and just nation that believes in protecting the weak and defenseless and still have confidence that they will not be deserted by the United States.

Mr. Chien's attitude became almost belligerent and insulting. He ended his remarks by asking how the United States could have the audacity to face the world, posing as a nation professing democratic principles, believing in self determination of peoples and the rights of

small nations, and then sit back and allow Taiwan to fall into the hands of the Communists which is contrary to the desire of the people. The views and opinions expressed at this gathering are typical of the attitude and feelings of politically conscious Formosans.

Respectfully yours,

JOHN J. MACDONALD

894A.00/9-949

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Freeman)

[WASHINGTON,] September 9, 1949.

Participants: Mr. Dening, British Foreign Office, Assistant Under-Secretary for Foreign Affairs in Charge of Far Eastern Matters
Mr. Meade, Counselor, British Embassy
Mr. Ford, First Secretary, British Embassy
Mr. Butterworth, FE; Mr. Merchant, FE; Mr. Freeman, CA

Mr. Dening opened the conversation on Formosa by inquiring whether in our opinion the Nationalists on Formosa were becoming infected through Communist infiltration.

Mr. Merchant in replying gave a brief background statement on recent U.S. policy with regard to Formosa. He stated that the U.S. Government was of the opinion that it was of great importance that Formosa be kept out of Chinese Communist hands and that we had therefore taken certain steps in an effort to strengthen the present government. In this connection Mr. Merchant mentioned the employment of ECA funds in an effort to increase production and to provide economic stability through such projects as the fertilizer program, the J. G. White Engineering Company and the Joint Commission on Rural Reconstruction. Following the fall of Nanking and Shanghai, Mr. Merchant continued, and the consequent large influx of political refugees and Nationalist troops to Formosa, the Department requested the National Military Establishment to review the position of Formosa with particular regard to its strategic importance to the U.S. and any threat to American security which might arise should the island fall into hostile hands. He said that the NME after studying the question replied that Formosa was of considerable strategic importance to the U.S., but that it was beyond the present capabilities of the U.S. to undertake a military defense of the island. It had therefore been determined, Mr. Merchant stated, that the U.S. would concentrate on diplomatic support of the present government on Formosa and economic assistance to the island. He concluded, however, that there was

considerable evidence of Communist infiltration on Formosa; that the Department was of the opinion that it could not be held indefinitely by the present government; and that the probabilities were that the island would eventually be taken over by the Communists.

Mr. Dening mentioned that they had received an unconfirmed report from the British Consul in Tamsui to the effect that the Nationalists had repulsed an attempt by Chinese Communist forces to effect a landing on the Formosan coast. The British Consul had stated, in this connection, that there was increasing concern on the part of Admiral Kwei and other high officials on Formosa as to the ability of the Nationalists to combat a determined effort by the Communists to take over the island.

Mr. Butterworth stated that the Department had not received any report of an attempted landing on Formosa by the Communists and indicated that he believed such an eventuality was unlikely in the near future. He said that in his opinion the process of Communist infiltration and working from within would be a gradual one and would require some time and careful preparation before a Communist takeover could be effected. Mr. Merchant took occasion to point out the illogic of the situation: (1) Formosa is completely self-supporting; (2) the Nationalists on Formosa have a well-equipped army, air force and navy; (3) the Communist forces have no air force or navy; (4) the Nationalists on Formosa have an abundance of foreign exchange; (5) it would appear on the surface that the Nationalists under good leadership could establish themselves in an impregnable position for an indefinite period; and yet (6) there is every evidence that the Communists will be able to gain control of the island.

Mr. Dening mentioned the Formosan League for Reemancipation and stated that, although it appeared to be a non-Communist non-Kuomintang organization which was working for Formosan independence, the leaders of the movement were unsavory characters and the only thing that could be said for them was that they appeared to oppose Communism. He also mentioned the possibility of an appeal by the Formosans to the UN with a view to holding a plebescite or establishing a mandate under the UN. Mr. Butterworth agreed with Mr. Dening, however, that the possibility of such an appeal was remote, particularly as long as Chiang Kai-shek remained in control of the Government on Formosa.

In conclusion Mr. Dening read the final paragraph of a brief on Formosa which had been prepared for him by the Foreign Office and in which the following points were made:

1. Both the Communists and the Nationalists will continue to lay claims to Formosa;

2. There is no possibility of the present legal status of Formosa being altered without Four Power agreement;

3. The possibility of the Formosan case being submitted to the UN is unlikely and might even cause more harm than good if done;

4. Consequently the question of who is to control Formosa will be decided by the outcome of the present struggle between the Communists and the Nationalists;

5. There is a strong probability that Formosa will in any event fall into the hands of the Communists and, since this eventuality cannot very well be prevented, all that can be done is to hope that occupation of the island by the Communists will not prove disastrous.

894A.20/9-1549 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 15, 1949—9 a. m.

[Received September 15—12: 56 a. m.]

476. Called on General Sun Li-jen at his request late yesterday afternoon. He expounded at length on difficulties he is encountering as commander of all ground troops Taiwan. (According to recent order, he has been placed in direct command of all combat troops on island.) Claims he is powerless as he has inadequate supplies and support and in some instances none. He is dependent on Governor Chen Cheng for all equipment. Sun stated that Chen evades issue when he requests equipment or passes buck by saying matter will be discussed at future conference or tells Sun he has no money and to get the supplies himself if he needs them. Sun says that General Chen making same mistakes he made previously and has learned nothing by past unfortunate experiences. Defenses of island appallingly inadequate, according Sun, and he has been unable to get any equipment or funds from Chen Cheng to improve situation and was told by Chen that there is plenty of time but Sun says time running short. Sun naturally discouraged and frustrated but is determined to try and reorganize troops here and build up some sort defense. He plans to spend one-third his time in Taipei in connection his duties commander of ground forces and two-thirds time at training center as he considers training troops now here most important job.

In reply my query as to likelihood of Communist attack Taiwan and possibilities of success, he replied he considers 50-50 chance attack following fall Canton since Communists must either make Chungking or Taiwan next objective and Taiwan is of greater strategic importance for several reasons. He estimates chances of success good. In first place island has practically no defenses and out of approximately 300,000 troops now on island, not over 60,000 at most are combat troops and Communists, according Sun, could land 200,000 troops within 24 hours

easily. These troops could be transported in large fishing junks equipped with sails and motors and are capable of carrying 200 men each with equipment. He said Communists can assemble 1,000 junks without trouble.

In view of this threat of invasion he fails to understand why General Chen Cheng takes such an unrealistic view of situation, saying there is plenty of time. Sun attributes many of former defeats on mainland to attitude that there was plenty of time.

Sun expects fall of Canton before October 10 and thinks that present lull on that front has been due to Communist reorganizing and improving lines of communication in preparation for final blow.

MACDONALD

894A.01/9-2249 : Telegram

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

HONG KONG, September 22, 1949—2 p. m.

[Received September 22—10:59 a. m.]

743. On 19th September officer of Consulate met group FLR leaders, including Liao brothers, General Huang N Ping, and Hsiao Shen Onu, latter two well known Ambassador Stuart, at their request. Group stated maladministration of present Taiwan Government forcing islanders look to CCP as liberators. Fertile field for CCP underground. Estimate 20 percent armed forces strongly disaffected. Younger members FLR and similar groups taking attitude that failure democratic nations relieve them from Kmt oppression forcing them turn to Communists.

Group inquired if US intended take any positive steps ameliorate situation on Taiwan prior to settlement status island through Japan peace treaty. Urged that situation becoming critical, requiring action soon. Interviewing officer replied no information on this point.

Group then asked if wishes of islanders would be consulted prior to peace treaty decision on future status island. Interviewing officer replied no information this point. Also said would forward their comments to Department.

Sent Department; repeated Taipei unnumbered.

RANKIN

893.00B/9-2349 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 23, 1949—4 p. m.

[Received September 23—10:30 a. m.]

514. Reference Hong Kong telegram 743 to Department, repeated Taipei unnumbered September 22. Information similar that reported

reftel received here and I believe some leaders independence groups and their followers feel deserted by democracies and beginning to look upon Communists as liberators from Kmt, but at same time hope US will eventually rescue them from Communists.

Also my opinion FLR and other independence leaders somewhat exaggerating pro-Communist attitude, altho it definitely exists, in hopes of frightening US into positive action their behalf.

Repeated Hong Kong 42.

MACDONALD

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/8

[WASHINGTON,] October 6, 1949.

THE POSITION OF THE UNITED STATES WITH RESPECT TO FORMOSA

The enclosed draft report by the Department of State on the subject is submitted herewith at the request of the Acting Secretary of State for consideration on the agenda of an early meeting of the National Security Council.

It is recommended that, if the Council adopts the enclosed report, it be submitted to the President with the recommendation that he approve the Conclusions contained therein and direct their implementation by all appropriate executive departments and agencies of the U. S. Government.

SIDNEY W. SOUERS

[Enclosure]

*Draft Report by the National Security Council on the Position of the
United States With Respect to Formosa*

THE PROBLEM

1. To determine what modifications, if any, should be made in existing policy with respect to Formosa and the Pescadores in the light of present circumstances.

ANALYSIS

2. Present U. S. policy with respect to Formosa and the Pescadores calls for efforts to deny those islands to the Chinese Communists through diplomatic and economic means. The diplomatic and economic means through which this objective is being currently sought are set forth in NSC 37/2 of February 3, 1949 and NSC 37/5 of March 3, 1949.

3. The Department of State's memorandum of August 4, 1949 to the Executive Secretary of the NSC (NSC 37/6) outlines certain factors in the existing situation which indicate that the ultimate passage of Formosa to Communist control by external or internal action is probable. These factors remain unchanged. The current CIA ¹¹ estimate is that without U. S. military occupation and control, Taiwan "probably will be under Chinese Communist control by the end of 1950." During recent conversations in Washington the British have expressed the view that ultimate Communist control of Formosa is inevitable and have added that they can suggest no measures by which this might be prevented.

4. In considering the courses of action which the U.S. might pursue with respect to Formosa the following limitations must be kept in mind:

a. The Joint Chiefs of Staff have stated in NSC 37/7 of August 22, 1949, that they "must reaffirm their earlier opinion that the strategic importance of Formosa does not justify overt military action, in the event that diplomatic and economic steps prove unsuccessful to prevent Communist domination, so long as the present disparity between our military strength and our global obligations exist(s), a disparity that may well increase as a result of budgetary limitations and the commitments implicit in the North Atlantic Treaty.

"Therefore, replying specifically to the major question in paragraph 7 of the Secretary of State's memorandum of 4 August 1949 (NSC 37/6), the Joint Chiefs of Staff do not regard Formosa and the Pescadores as of sufficient military importance to the U.S. under the circumstances set forth above to commit U.S. forces to their occupation under conditions short of war and on the assumption that in the absence of military measures these islands will sooner or later come under Communist control." The Joint Chiefs of Staff, evidently envisaging the possible loss of Formosa in their strategic planning, add that "the probabilities of the Formosan situation make it more than ever necessary that every effort be made to forestall any weakening of the over-all United States position with respect to the Philippines, the Ryukyus, and Japan, in view of the greatly magnified importance of retention of our off-shore control in the Western Pacific area as a result of developments on the Asiatic mainland."

b. The political importance of Formosa does not give rise to considerations of such importance as to justify overriding, on political grounds, the views of the Joint Chiefs of Staff quoted above respecting the military importance of the islands. On the contrary, it is believed that the employment of U.S. forces on Formosa would enable the Chinese Communists to rally support to themselves as defenders of China's territorial integrity and handicap our efforts to exploit Chinese irredentist sentiment with respect to Soviet actions in Manchuria, Mongolia and Sinkiang.

5. Having in mind the limitations set forth in paragraph 4 above, the U.S. Government might endeavor to insure the continuing freedom

¹¹ Central Intelligence Agency.

of Formosa from Communist control by means of a greatly expanded program of economic aid coupled with a program of military assistance short of the employment of U.S. armed forces. This program might include the reestablishment of a military advisory group in Formosa and have as its prerequisite the undertaking by the Chinese authorities in Formosa of specific administrative and organizational changes designed to improve the over-all defensive position of the island. However, it is believed that it would be unwise to embark upon such a program at this time. Available information indicates clearly that the present weakness of the Island does not arise from lack of economic resources or military materiel. The major portion of the Chinese Government's gold and silver holdings and foreign currency reserves, estimated to be in excess of one hundred million US dollars is located on Formosa and available to the Chinese administration there. It is believed that likewise the major portion of the military materiel purchased under the \$125 million grants is stockpiled on Formosa. It is reliably reported that during his recent visit to the Philippines, the Generalissimo stated privately that he had sufficient resources to hold out on Formosa for at least two years without outside assistance. In view of its natural resources, the economy of Formosa could be made almost completely self-sufficient under efficient administration, although this would be more difficult at present owing to the influx of large numbers of civilians and armed forces from the mainland. The basic weakness of the Chinese administration in Formosa arises rather from the transfer to the Island of the ills and malpractices that have characterized the Kuomintang in China. Against this, external material assistance alone cannot provide a remedy. Under these circumstances the undertaking by the U.S. of an expanded program of aid would in all probability tend to convince Chinese leaders that the U.S. was determined to prevent Communist capture of Formosa regardless of the steps taken by the Chinese themselves and it would therefore discourage rather than encourage essential measures of self-help. Moreover, embarking at this time on an industrial reconstruction program which would not bear fruit for a considerable period would increase the future value of the Island to the Communists if they succeed in seizing control without strengthening its economic powers of resistance in the crucial months ahead. In fact a capital investment program now would have the effect of contributing seriously to the present inflation, thereby complicating rather than helping the immediate economic problem. This Government would find its prestige and its resources engaged in a venture which on the basis of experience would hold little chance of success. In summary, a program of aid of this nature would supply economic

assistance and military materiel not considered at present necessary to a solution of the problem; it would commit American resources and prestige to what is in all probability a lost cause unless the Chinese themselves were to initiate and faithfully carry out essential measures of self-help, and at the same time it would tend to remove their incentive to do this; and finally, it would greatly strengthen the suspicion among Chinese, Communist and non-Communist alike, of U.S. "imperialistic" design on Formosa, thereby consolidating Chinese public support behind the Chinese Communists and tending to nullify our efforts to exploit Chinese irredentism arising from Soviet actions in the North.

6. In view of the circumstances outlined in the preceding paragraph, it would appear desirable to continue on Formosa a course of action along the general lines laid down in existing policy with certain modifications which take into account present conditions on the Island. This course of action envisages the continuation of the present moderate-sized ECA program and the program of the Joint Commission on Rural Reconstruction. Whereas an expanded program of aid would probably create on the part of the Chinese an unwarranted optimism with respect to U.S. intentions to safeguard the Island, abrupt cessation of existing aid would damage the morale and prestige of the present Chinese administration. It would, in fact, be widely interpreted as reflecting lack of interest on the part of this Government which is not in accord with the facts. But the primary objective of any course of action offering even a reasonable hope of success, must be the correction by the Chinese themselves of those administrative faults which are a major cause of the present precarious position of Formosa. To that end the extent of American interest in Formosa and the degree of American support for the present Chinese administration should be made unmistakably clear to the present Chinese authorities and to the Chinese and American publics. Since the real source of authority on Formosa is now Generalissimo Chiang Kai-shek, this Government's views should be conveyed to him along the following lines:

The U.S. has no designs on Formosa and seeks no military bases or special privileges of any kind on the Island.¹² The U.S. Government will [*does*] not [*intend to*] commit any of its armed forces to the defense of the Island.¹³ It is concerned, however, lest the chaos of the mainland spread to Formosa and believes that a higher level of political and economic well-being must be provided if serious unrest is to be avoided and the legitimate aspirations of the population of Formosa met. The previous misgovernment of Formosa has been a cause for serious concern on the part of the U.S. and there have been disturbing

¹² Sentence subsequently deleted (NSC Action 254, October 20, 1949).

¹³ Bracketed revisions made subsequently.

indications of unrest among the population of Formosa as civilian refugees and military forces have arrived in large numbers on the Island. The U.S. attitude toward Formosa will depend largely on the action of the present Chinese administration in establishing an efficient administration which would seek to bring to the people a higher level of political and economic well-being. The resources of the Island, together with the material assets available to the Chinese administration are believed to be sufficient to enable that administration substantially to improve conditions through its own efforts. Unless effective steps are taken initially by the Chinese administration itself, external aid would be of little benefit and would be largely dissipated. The U.S. Government will, therefore, continue to watch with interest the efforts of the Chinese administration to initiate those measures which are necessary to provide the basis for effective administration and effective utilization of the resources of Formosa. While the U.S. Government will continue to furnish economic assistance to Formosa under existing legislation, the provision of any additional aid will depend upon the future performance of the Chinese administration on Formosa.

In order to derive the maximum effectiveness from this step, it is essential that the U.S. position be made clear not only to Generalissimo Chiang Kai-shek, but to the Chinese and American publics as well. This might be accomplished initially by means of a press release. It is believed that the approach should be delayed until Canton falls, at which time the division of power between Li and the Gimo and the latter's undisputed control of Formosa should be clearly apparent to all.

7. Either of the alternative courses of action outlined in paragraphs 5 and 6 above might be accompanied by action within the United Nations. There are a number of forms which such action might take and a number of ways in which it might be initiated. However, in any realistic appraisal of the desirability of such action it must be kept in mind that the United Nations possesses no armed forces with which to enforce a decision respecting Formosa against the will of those in control of the Island. With respect to the possibility of the U.S. contributing forces to this end, the Joint Chiefs of Staff have stated in the NSC 37/7 that "The suggested possibility of future joint or concerted Formosan action with other governments within or without the framework of the United Nations would, from the military viewpoint, have serious implications in that our military involvement in Formosa might differ little in degree from that envisaged as a result of unilateral occupation." In view of this circumstance, it is probable that any action contrary to the wishes of the present or future Chinese authorities in Formosa which the United Nations might take not only would fail to affect tangibly the fate of the Island, but would undermine the prestige of the United Nations as well. Informal and explora-

tory steps are now being taken to ascertain the degree to which the Chinese Government would initiate or cooperate in United Nations action respecting Formosa. Until information in this respect is available, it would be unprofitable to discuss the form which such action might take. However, even though Chinese cooperation were lacking, United Nations action with respect to Formosa might be advantageous as a means of obtaining wider support for the course of action which the United States follows. This possibility is likewise being explored.

CONCLUSIONS

8. The policy set forth in NSC 37/2 and NSC 37/5, respecting Formosa, should be continued. Steps should be taken following the capture of Canton by the Communists to make unmistakably clear to the Chinese in control of Formosa and to the Chinese and American publics the extent of American interest in Formosa and the degree of American support for the present Chinese administration of the Island. This should be done by means of an approach to the Generalissimo as outlined in paragraph 6 and by a public statement¹⁴ as suggested in paragraph 6.

9. Further consideration should be given to the desirability of concurrent action in the United Nations when information regarding the Chinese Government's attitude toward such action becomes available.

894A.00B/10-1049 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, October 10, 1949—9 a. m.

[Received 3:30 p. m.]

566. Article in September 26 issue *Newsweek* that US and Britain will let Communists take Formosa has disturbed top level officials here considerably, according K. C. Wu, who called this regard. Such statements, he said, are terrific blows to liberal elements and groups desiring resist Communists. He asked if this State Department's attitude. I assured him US most anxious see Taiwan denied Communists, referring our ECA program, etc. He said article has raised doubts regarding our intentions, encouraged defeatism and given moral encouragement to Communists. Realizing we cannot prohibit such articles, he suggested US press be warned that type statement plays into Communist hands.

MACDONALD

¹⁴ Marginal notation: "NSC agreed to make no public statement (Action 254 10-20-49)".

894A.00B/10-1049 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, October 10, 1949—noon.

[Received October 10—11:58 a. m.]

568. After imparting information contained mytel 566, October 10, K. C. Wu said, if Formosa is held and resistance groups on mainland assisted, Reds can be defeated within 3 years and democratic government restored China. He thinks present organized military resistance mainland doomed, expecting Canton fall within week to one month followed by successive defeats. Formosa, however, must be denied Communists because he feels they will encounter increasing administrative difficulties, growing opposition from people resulting in pockets resistance in China and when system sufficiently weakened from internal troubles Taiwan can be used as base for launching new offensive mainland. He thinks these troubles will become sufficiently serious by spring to counter attack.

Plans now under consideration by special military, political and economic committees of Taiwan branch Kmt extraordinary committee for defense of island and liberalization of provisional government. Wu said confidentially civilian group dominated by himself, Wang Shih-chieh, Hollington Tong and Huang Shao-ku are insisting on government made up of civilians for Taiwan plus broad reforms including freedom of press, free enterprise and giving Formosans important administrative positions if they are capable of filling them. It is to be a government by law not decree. He even proposes suggest Chiang Wei-chuang, a Taiwanese independence leader, be given position of trust. Wu is confident civilian group will win Generalissimo over their side and after that Wu confided in strictest secrecy that he intends to present following plan to Generalissimo and extraordinary committee Kmt which he feels confident they will adopt: US should be approached for assistance and cooperation with Chinese Government to save Formosa. In reply to my question what form of assistance and cooperation he had in mind, he said military supplies, especially planes, ammo, naval craft and military advisors. Re military advisors, he will insist it be mandatory to accept their advice and he would turn over entire supply system to Americans to operate as Chinese cannot control supplies properly due widespread corruption. Said he has not worked out all details of plan, but hopes it can be presented to us by November 1 but wants to be sure first that proper democratic reforms will be made here in order to prove to US Chinese can reform themselves. Claims this information given me because he wants it passed on State Department inasmuch as it might influence our thinking and prevent US from writing off Formosa as reported by *Newsweek*.

This nebulous plan strikes me that K. C. Wu is trying to find a new approach for identical often-repeated requests for aid. He has great confidence in his ability influence Generalissimo to agree wide reforms, and continues stress big change in Generalissimo's attitude. However, if he is supported by Wang Shih-chieh and few other Kmt trustees Generalissimo might consent to any plan in last attempt obtain US assistance in order enable him maintain Kmt as recognized government. Wu and Wang Shih-chieh work closely together and undoubtedly have considerable influence over Generalissimo.

Conversation of Wu's might have been just a feeler or an indication that Generalissimo is preparing set himself up as head of Nationalist Government with headquarters here, and openly break with mainland group. Suggestion that Wu favors giving capable Formosans positions in provisional government could have some connection with and confirm rumors of proposed semi-autonomous government Taiwan.

Sent Department 568, repeated OffEmb 208.

MACDONALD

894A.00/10-2149 : Airgram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, October 21, 1949.

[Received October 27—5:13 p. m.]

A-110. The following is a translation from the Japanese of a letter received at this office:

"Dear Mr. Consul General,

"With the establishment of the Central People's Government of the Republic of China, the entire continent will be overwhelmed by communism.

"In the past four years, the people of Taiwan have suffered immensely both in spirit and material under the incompetent, despotic and feudalistic control of the corrupt Chinese Government. The sorrow and sufferings of the 7,000,000 people of the island of Taiwan can never be fully expressed in writing or in words, and not a single islander is satisfied with the present situation.

"Once Canton and Amoy fell into communist hands, there would be no more guaranty of Taiwan's security. We, the people of Taiwan can no longer tolerate the rule by incompetent Chinese irrespective of their being communists or not.

"It is the desire and wish of the seven million islanders that you will transmit to the U.S. Government our wishes to the latter to immediately dispatch an army to occupy and protect Taiwan, to expel the cruel Chinese troops and restore us to hope.

"From a representative of the Taiwanese people."

It is believed that the above does, in fact, represent the desires of a great majority of the Taiwanese.

EDGAR

894A.00/10-2349: Telegram

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

CHUNGKING, October 23, 1949—noon.

[Received October 24—4:19 a. m.]

Cantel 1221. As third major point in conversation on October 22 (Cantels 1219 and 1220, October 23¹⁵) Chu Chang-wei¹⁶ said President Li was anxious be informed of U.S. policy on Taiwan and declared Li authorized him say that Li was willing see Taiwan in hands of a friendly country rather than taken by Chinese Communists as they controlled by USSR. Chu stated Li would prefer a joint Sino-American Commission govern Taiwan but if US not favor this proposal US could properly take over Taiwan "by right of conquest." To avoid charges that such action violated moral obligation undertaken by US at Cairo to return Taiwan to China, he explained US could promise cede Taiwan back to China some future time. Moral obligation of US respect to recovery of Taiwan by China had now become, he averred, responsibility to keep island from Communist control. He declared that reference Taiwan problem to UN would be inadvisable because of Soviet opposition and urgency of problem.

Disclosing that General Chen Cheng recently telegraphed General Pai Chung-hsi¹⁷ his concern about Taiwan defense and referring present Communist military activity at Chinmentao¹⁸ he asked for information soonest on US position regarding Taiwan.

STRONG

893.00/10-2449: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, October 24, 1949—noon.

[Received October 24—1:43 a. m.]

606. China Customs [head] L. K. Little, having transferred headquarters here, had long talk Generalissimo latter's request—who, although claiming unofficial status, proceeded give orders. Generalissimo seriously worried over danger invasion Formosa and wants customs boat for defense.

EDGAR

¹⁵ Vol. VIII, "Political and military situation in China", chapter VIII.¹⁶ Secretary and political adviser to Acting President Li Tsung-jen.¹⁷ Chairman of the Chinese Military Strategy Advisory Board.¹⁸ Quemoy Island.

894A.00/10-2349 : Telegram

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

WASHINGTON, October 28, 1949—8 p. m.

TelCan 739. Reur Cantel 1221 Oct 23 reporting Li Tsung-jen desire be informed US policy Taiwan, Dept desires you seek suitable opportunity inform Li orally US views:

"The US Govt does not intend to commit any of its armed forces to the defense of the Island. It is concerned, however, lest the chaos of the mainland spread to Taiwan and believes that a higher level of polit and econ well-being must be provided if serious unrest is to be avoided and the legitimate aspirations of the population of Taiwan met. The previous misgovernment of Taiwan has been a cause for serious concern on the part of the US and there have been disturbing indications of unrest among the population of Taiwan as civilian refugees and mil forces have arrived in large numbers on the Island. The US attitude toward Taiwan will depend largely on the action of the present Chi administration in establishing an efficient admin which wld seek to bring to the people a higher level of polit and econ well-being. The resources of the Island, together with the material assets available to the Chi administration are believed to be sufficient to enable that admin substantially to improve conditions through its own efforts. Unless effective steps are taken initially by the Chi admin itself, external aid wld be of little benefit and wld be largely dissipated. The US Govt will, therefore, continue to watch with interest the efforts of the Chi admin to initiate those measures which are necessary to provide the basis for effective admin and effective utilization of the resources of Taiwan. While the US Govt will continue to furnish econ assistance to Taiwan under existing legis, the provision of any additional aid will depend upon the future performance of the Chi admin on Taiwan".

You shld also inform Li that steps being taken convey these views to Gimo. During this conversation you shld be accompanied by Rinden¹⁹ to check accuracy of translation.

ACHESON

894A.20/10-2849 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, October 28, 1949—8 p. m.

412. Ref memo re Formosa which was submitted to NSC²⁰ and copy of which transmitted you under cover Top Secret instr Oct 13.²¹ Memo approved with fol changes:

¹⁹ Robert W. Rinden, Second Secretary of Embassy, temporarily detailed to Chungking.

²⁰ NSC 37/8, October 6, p. 392.

²¹ Not printed.

(1) Delete first sentence in outline views this Govt to be conveyed to Gimo contained in nrd [numbered] para 6 and change second sentence to read "The US Govt does not intend to commit any of its armed forces to the defense of the Island".

(2) No public or press statement US views to be made.

Dept accordingly desires you seek suitable opportunity convey to Gimo fol US views re Formosa :

"The US Govt does not intend to commit any of its armed forces to the defense of the Island. It is concerned, however, lest the chaos of the mainland spread to Taiwan and believes that a higher level of polit and econ well-being must be provided if serious unrest is to be avoided and the legitimate aspirations of the population of Taiwan met. The previous misgovernment of Taiwan has been a cause for serious concern on the part of the US and there have been disturbing indications of unrest among the population of Taiwan as civilian refugees and mil forces have arrived in large numbers on the Island. The US attitude toward Taiwan will depend largely on the action of the present Chi admin in establishing an efficient admin which wld seek to bring to the people a higher level of polit and econ well-being. The resources of the Island, together with the material assets available to the Chi admin are believed to be sufficient to enable that admin substantially to improve conditions through its own efforts. Unless effective steps are taken initially by the Chi admin itself, external aid wld be of little benefit and wld be largely dissipated. The US Govt will, therefore, continue to watch with interest the efforts of the Chi admin to initiate those measures which are necessary to provide the basis for effective admin and effective utilization of the resources of Taiwan. While the US Govt will continue to furnish econ assistance to Taiwan under existing legis[lation], the provision of any additional aid will depend upon the future performance of the Chi admin on Taiwan."

You shld convey foregoing forcefully and orally to Gimo stating that you are doing so under instrs from your Govt. Martin ²² shld accompany you prepared either to translate himself or to check accuracy of Chi translator but in preparing his informal translation he shld not use Chi members ConGen staff. You shld leave *aide-mémoire* in English quoting foregoing statement.

Dept also desires that subsequent to informing Gimo you apprise Chen Cheng and Sun Li-jen of action which you have taken and nature of views expressed, providing opportunity can be found to do this casually and informally.

For ur info Dept instructing Strong Chungking to inform Li Tsung-jen of foregoing US views and of fact that these views being conveyed to Gimo. This action in response to request from Li for info re

²² Edwin W. Martin, Consul at Taipei.

US policy Taiwan reported in Chungking Cantel 1221 Oct 23, which being rptd you separately.

You shld keep Moyer informed of action being taken pursuant this instr impressing upon him Top Secret nature of matter.

ACHESON

894A.20/10-3149 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, October 31, 1949—5 p. m.

[Received October 31—2:21 p. m.]

640. For Butterworth. ReDeptel 412. Although from our point of view Chen Cheng leaves much to be desired his presence creates fewer problems than the Generalissimo's. Suggest therefore that Department consider conveying any US Government views to Chen instead of Generalissimo unless request for Chen's removal is contemplated which is not recommended. Any apparent US support of Generalissimo might defer reported locally plotted action to remove him for China's good and might maintain belief only Generalissimo and Madam can get outside aid. Although Chen is not popular among Taiwanese, he is not subjected by Chinese here and elsewhere to same charges as Generalissimo. If we must deal with one as we apparently must, Chen appears preferable. Also Chen would be principal Formosan authority implementing any agreed program since Generalissimo has not interfered extensively in strictly local administration.

Gist of US views could subsequently be got informally to Generalissimo through Wang Shih-chieh or K. C. Wu.

Also trust Department will supply in addition to proposed statement some specific suggestions for political and economic improvement. These might include (1) greater use of Tarring, as economic adviser, (2) unification of military including supplies under Sun Li-jen, (3) granting of city and district local self government soonest, (4) elevation of selected Taiwanese to positions of importance near government, (5) granting sufficient freedom of press to permit Taiwanese to express selves in moderation, (6) elimination of Kmt carpet baggers from public trough.

Suggestions could be presented confidentially for consideration and subsequent discussion.

At this stage believe we should not overlook statement in Chen Cheng's letter to SCAP²³ carried by Sun Li-jen requesting SCAP

²³ Not printed.

advice and guidance. Also Chen's September statement indicating need and willingness for outside aid.

Have requested Strong to defer action.

MACDONALD

894A.00/10-3149

The Consul General at Taipei (Macdonald) to the Secretary of State

No. 83

TAIPEI, October 31, 1949.

[Received November 15.]

SIR: I have the honor to enclose the full text ²⁴ of a broadcast made by Generalissimo Chiang Kai-shek on the eve of the Taiwan Liberation day October 25, 1949.

Insofar as can be determined this is the first appeal made by the Gimo to the Taiwanese since the recent establishment of his headquarters in Taiwan. The principal point of the speech, which is arrived at after an excess of references to his "Taiwanese brothers" and the mainland devotion to the welfare of the Taiwanese, appears to be a call for general mobilization and the adoption of total war methods. "I do hope", he said, "that our Taiwanese brothers will, in memory of the heroic deeds of Cheng Cheng-kung (Koxinga, the legendary hero of the Taiwanese) and following in the footsteps of their revolutionary martyrs who have sacrificed their lives to the cause during the last three hundred years, unite heart and soul and mobilise all their manpower and material reserves to defend their island and Pescadores and to support the war on the mainland."

There is still no indication that the Taiwanese have any intention of overexerting themselves or in pooling their resources in the defense of a Taiwan subjected to the unpopular government of a Kuomintang despite their inbred dislike for Communism.

Respectfully yours,

JOHN J. MACDONALD

894A.20/10-3149 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 1, 1949—7 p. m.

419. Ur 640 Oct 31. Dept appreciates your views. However, procedure outlined Deptel 412 is based upon NSC decision which in turn embodied views of Dept arrived at after careful consideration all factors. Dept believes Gimo is ultimate real authority on Formosa and

²⁴ Not printed.

that accordingly approach should be made to him. However, as provided in Deptel 412 it is expected that you will independently and informally convey these views to Chen Cheng and Sun Li-jen. For urinfo, Dept fears that if views reach Gimo through medium third party they may be distorted or watered down.

Dept had given careful consideration desirability of making specific suggestions of remedial measures which should be taken in Formosa but decided it preferable at present not assume responsibility of adviser to Chi administration without authority and fears that half-hearted compliance with suggestions would merely involve US more deeply without accomplishing objectives. On whole Dept believes that Chinese, if they can be convinced of need for remedial action, much better qualified decide upon specific steps and method implementation thereof than is US Govt.

However, Dept sees no objection to and some possible benefit your taking occasion your discussion with Chen Cheng to suggest in personal capacity and as ur personal views specific remedial measures as outlined para 3 reftel.

Re penultimate para urtel, for urinfo Dept believes present resources Formosa adequate enable substantial improvement situation and question increased aid less urgent than that effective use present resources. Dept believes increased aid this time rather than encouraging effective use present resources would tend to convince Chinese that efforts their own part not necessary. Dept desires you have in mind this basic thought which underlies present US attitude on Formosa and that you comment thereon whenever in ur view developments Formosa warrant.

Pls request Strong proceed accordance earlier instructions.

ACHESON

894A.01/11-349 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 3, 1949—2 p. m.
[Received November 3—4:56 a. m.]

652. Yesterday afternoon K. C. Wu called at his request to discuss progress being made by special committees of Taiwan branch Kmt Extraordinary Committee for defense of Formosa and liberalization of Provincial Government as reported mytel 568, October 10, repeated OffEmb Canton as 208. Civilian group, according to Wu, has run into difficulties with "old duffers of Whampoa clique"²⁵ but he hopes plan

²⁵ Chinese military academy at Canton where Generalissimo Chiang was director before entering politics.

will be ready by end this month although committee has set November 15 as deadline. Wu is discouraged by slow progress made and obstacles presented by Whampoa clique old duffers, but is optimistic re eventual outcome. However, he looks tired, harassed, shows strains of overwork and worry and lacked his usual enthusiasm.

Wu reaffirmed his determination to stress the importance on Generalissimo and Kmt Extraordinary Committee of necessity for having Formosans in Provincial Government as a means of gaining confidence of local population and enlisting their support in defense of island. He hopes to make use of Chiang Wei-chuan (mentioned on page 930 of White Paper ²⁶) in some capacity for the purpose of rallying the Taiwanese in forming a civilian defense corps. Wu claims that Chiang Wei-chuan has the largest popular following of any Formosan leader and discounts importance of FLR and other independence groups.

Wu said he is endeavoring to promote General Sun Li-jen and influence the Generalissimo and General Chen Cheng to give Sun more support and, according him, both are agreeable but Sun is handicapped also by Whampoa clique old duffers who still exercise considerable power and influence in high quarters.

When plan now under consideration by Taiwan branch Kmt Extraordinary Committee is in rough draft form, Wu said, he will show it to me and Service Attachés for comments and suggestions.

Sent Department, Department pass Chungking.

MACDONALD

894A.20/11-349 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 3, 1949—5 p. m.

[Received November 3—7:12 a. m.]

654. Reference Deptels 412, October 29 [28] and 419, November 1. Accompanied by Martin, I conveyed US views re Formosa to Generalissimo this morning. He appeared very interested but an expression of displeasure was apparent when statement re previous misgovernment of Taiwan was translated.

After conveying Department's message to Generalissimo, his first question was to whom was this message addressed, to which I replied I was instructed by my Government to deliver it to him personally. Generalissimo appeared pleased that the message was for him.

He then asked me my own opinion at present re conditions in Taiwan. I pointed out that, while present economic condition of the island is not bad, there are many danger signs and that it could de-

²⁶ Department of State, *United States Relations With China* (1949).

teriorate rapidly which would be disastrous. I mentioned that large numbers of troops from mainland and refugees who had come here several months ago were cause for considerable alarm and if they had continued to enter in force the strain on the economy of island would have been more than it could have stood. I stressed that a steady and rapid rise in prices accompanied by food shortages plus other privations which civilian population would have to undergo would tend to make people lose all confidence in present government and that they would be more likely to turn to communism. I remarked that, while not a military man, it is my understanding from talking to military experts and our own Attachés, that present defenses of Formosa leave a great deal to be desired. I also told him that it has been brought to my attention that there is growing discontent with present government among the local population which probably could be alleviated if some qualified Formosans were taken into the provincial government. This at least would make them feel that they are part of the governmental organization and inspire them to assist in defense of the island.

This seemed to be about all the Generalissimo was interested in hearing and then remarked that he wanted to study the message I had conveyed to him from the State Department and that he would call me later and give me his ideas re conditions in Taiwan and what should be done. He made other vague remarks about seeing me again and discussing the general situation.

The Department's message was translated to Generalissimo by one of his own translators but, according to Martin who had a prepared translation with him, Generalissimo's translator did excellent job in translating message as I delivered it.

The Generalissimo was exceedingly cordial and friendly and at end of the meeting gave both Martin and me impression that he was highly pleased, perhaps not by the message we conveyed to him, but due to the fact that I was instructed to deliver it to him rather than to someone else.

He looked relaxed, rested and showed no signs of strain, worry or nervous tension.

Repeat Chungking if Department deems advisable.

MACDONALD

894A.00/11-449: Telegram

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

CHUNGKING, November 4, 1949—2 p. m.

[Received November 4—12: 53 p. m.]

Cantel 1258. Accompanied by Rinden, I orally informed President Li at 11 a. m., November 3, US views on Taiwan as given in telCan 739,

October 28. On morning same day we requested appointment for afternoon only to learn Li leaving for Kunming at 1 p. m. Li proved willing to see us at once. We spent 80 minutes with him until he left for airfield.

Replying that US views on political and economic situation Taiwan were correct, Li advocated as means raising people's living standards and allaying unrest separate civil and military administrations for island. This proposal, Li says, he will soon discuss with Generalissimo. He said that if Sun Li-jen were given chief military responsibility, Taiwan would be securely defended.

On grounds Taiwan strategic value to US he proposed US Navy use its harbors as was done at Tsingtao. He felt that presence US warships would deter Communist attack and again averred US could properly claim Taiwan by "right of conquest". Said would like to see joint Sino-American administration of Taiwan.

Pointing out Taiwan's strategic importance and great natural resources, notably iron ore, he suggested Sino-American commission control island and develop its agriculture and industry.

He remarked that his suggestions re Taiwan and Hainan approved by majority Legislative Yuan and National Assembly members, including those in Taiwan, and that Hainan officials endorsed his proposal for that island. On this question too he said he will confer with Generalissimo.

Li then went on to express thought that in China there was much division of authority. In US, he said, President automatically is head of his party but not so in China, where Generalissimo as party head not only considered himself in government but even above government. Li then declared Kmt was backbone of government.

At this point arrival of Pai Chung-hsi broke up conversation and Li left for airfield.

Throughout interview Li was very gracious; he gave no sign that US attitude toward Taiwan was less favorable than he expected.

Sent Department Cantel 1258; repeated Taipei 205. Department pass Taipei.

STRONG

894A.20/11-549: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 5, 1949—3 p. m.

[Received November 6—11:50 p. m.]

662. During call on Governor Chen with Martin yesterday, took opportunity to refer to my call on Generalissimo and conveyed to Gov-

ernor contents of message for Generalissimo in Deptel 412, October 28. Commissioner Finance C. K. Yen also present.

Governor's first statement after hearing gist of *aide-mémoire* was expression of regret and shame for past failures of government on Is[lan]d and thanks for continued US interest and aid.

Asked if we had time to discuss question at length and indicated anxiousness to express himself.

He said when he first assumed Governorship in January, [he] realized people and Government too far apart. His program has been to bring them together.

His first task was to increase food production and has met with some success. (We noted that despite large influx troops and refugees in spring, according our agricultural people, no shortage basic foodstuffs now exists or anticipated.)

Next problem one of stabilizing currency. This is a question of confidence in Government and stable economy. Took steps (under C. K. Yen's direction) to bring many industries operated by Central Government under control Provincial Government, in order integrate with Provincial economy. Currency not linked to US dollar but managed in relation US dollar (calculations made on basis dollar) so that pound devaluation has not had serious effect, though some trade necessary with sterling areas and pound devaluation caused some complications.

Another step, which he said made him unpopular, was to limit immigration from mainland in order prevent increase burden Taiwan economy.

On political side, he and committee have just drawn up set of guiding principles to be put into effect by all government organizations. (Copy to be made available to US.) In 1950, will begin to institute self-government and local elections will be held.

This summer over 2,000 persons were placed in lower and middle grades of Provincial Civil Service, of whom 95 percent were Taiwanese, mostly recent graduates local middle schools and colleges. (Comment: This important because on mainland, particularly Peiping, in Consul Martin's experience, thousands of university and upper middle schools graduates were unable to find any employment whatsoever commensurate with education, which was great source of discontent and anti-government feeling. A very substantial percentage of these unemployed graduates, particularly of the university, went over to the Communists who always made sure to give them a job.)

Chen apparently much impressed with the turnout on Liberation Day October 25 when over 100,000 participated in parades and exercises. No unfavorable demonstrations anywhere.

Militarily, Chen said that first must make sure of internal security, then take care of external defense. When he first came to Taiwan, he was quite concerned with possibility of internal sabotage, etc.; but in view recent public demonstrations he now feels people support him.

Another illustration was fact that when recently Communists succeeded in getting a number of secret agents into Taiwan, they were turned in to the local authorities by the local people. Comment: This is very significant if such actions by local people have been on substantial scale. In Central China General Pai Chung-hsi constantly complained of cooperation local people gave to Communists' agents in hiding, feeding and warning them. He admitted Nationalist troops could get no such cooperation. Chen said that he had virtually completed reorganization of armed forces here, placing Sun Li-jen at head of all ground forces on Taiwan, Chou Chih-jou head of air forces, General Ho, son of Sir Robert Ho Tung of Hong Kong, as head of Service of Supply, Dr. Lim at head of medical units and trying to get Yu Ta-wei to head political unit. Latter declined for health reasons.

Chen feels he has best men. Reference to Sun, the Governor said he not only very able but also very willing to assume responsibility and carry out plans which is even more rare these days. Sun is handicapped because of longer service and seniority of great many old-line generals. However, Chen says from now on officer's status will be determined solely by his success on battlefield. Policy already carried out after Kinmen²⁷ battle when number high ranking officers removed from their commands; for example, Tang En-po.²⁸

Chen made a plea for more technical assistance from the US to be supplied by experts in the field of economics, politics and military science. He praised the achievements of the industrial J. G. White and economic ECA and JCRR advisors at present on Isd. He indicated that many of the Isd's present problems could be solved by competent advice and he promised that he would not disappoint his advisors. (Comment: J. G. White and JCRR officials have both commented on good cooperation received from Governor and generally good cooperation all around on Isd.) Chen mentioned success of land rent reduction program as illustration concrete achievements brought about by cooperation.

On subject of foreign trade, which we had mentioned seemed to be suffering from red tape and confusion, Chen said he was drawing up a new regulation and instructed Mr. Yen to make further studies on how to improve situation.

In closing, Chen said he would like to feel free to consult me at any time and at any time I should feel free to call upon him. It would be

²⁷ Quemoy.

²⁸ Pacification Commissioner for Fukien.

hard to ask for a more cooperative attitude from a high official than that displayed by Chen throughout interview.

Interesting sidelight: In asking me for comment, Chen said that I could feel free to tell him things which I might not have felt free to mention to Generalissimo. Except for above statement, Chen at no time mentioned Generalissimo and gave not [no] indication whatsoever that he (Chen) was not in complete charge of affairs on Isd or of military matters under his southeast headquarters command. In discussing military, political, and economic plans, programs, personal appointments, etc., Chen always appeared to be taking for granted that these things he decided on his own authority. The question just how much authority the Generalissimo wields here is one which deserves a great deal of attention.

What are the Department's criterions by which to measure "improvement in the political and economic well-being of the people of Taiwan?" Certainly some steps have been taken in this direction. According to Chen, others of the type we approve of are about to be put into execution. He also indicates a great willingness to accept advice almost to the point of attempting to do anything we ask. How many steps will have to be taken to show that he acting in good faith? These are questions which will have to be answered sooner or later if Chen carries out his plans, and right now it seems rather a good gamble that he will.

I was impressed with the Governor's frankness and feel he was sincere. As a matter of fact he has been going up in my estimation steadily since my arrival here.

MACDONALD

894A.20/11-649 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 6, 1949—11 a. m.
[Received November 6—2:04 a. m.]

664. Saw K. C. Wu yesterday who is very interested in Department's message to Generalissimo (reference Deptel 412, October 28). According to Wu, after my visit to Generalissimo at 11 a. m. November 3, he immediately called special meeting all members his headquarters for 4 p. m. that day to study *aide-mémoire* I left him and meeting lasted late into night. In reply to my question regarding how Generalissimo received message, Wu said he was very pleased and stated to members his headquarters that US now willing to deal with him again and that he had not been completely deserted by his old friend and ally. At end of meeting, Wu claims he told Generalissimo

this was his last chance as far as the US is concerned and to agree to any terms that might be forthcoming. Generalissimo left November 4 for secluded mountain resort in Mt. Voleoi to ponder over message and will return tonight. Generalissimo hopes have reply ready November 7 or 8.

Message to Generalissimo has K. C. Wu in highly elated state and he feels opportunity now presented them which they must use to best advantage. Several questions were raised by him similar to those asked in the penultimate paragraph mytel 662.²⁹ Present administration would be willing do most anything we suggest at this time and Wu said Governor Chen offered to resign if such a desire on part of US was indicated in the *aide-mémoire* I gave Generalissimo. I assured Wu I saw no indication of such a wish in the message and emphasized that US merely indicated that the Chinese administration of the isd should initiate those measures necessary to provide the basis for effective administration and utilization of the resources of Taiwan, I told Wu that my own estimation of Governor Chen had gone up considerably and that I hoped he would carry out the plans as outlined to me by him during our conversation on November 4.

The Department's message to the Generalissimo has definitely given them the moral support for which they have been asking recently. In addition to giving them moral support, it has interpreted, as the Generalissimo mentioned to the members of his headquarters, that the US Government is willing to deal with him directly again.

MACDONALD

893.00/11-649

Memorandum of Conversation, by the Ambassador to China (Stuart)

[WASHINGTON,] November 6, 1949.

On the afternoon of November 6 General Cheng³⁰ called on me. He had arrived the day before in New York, directly from China, and stated that Chiang Kai-shek had sent him to me as still the Ambassador to China to convey the readiness of the Chinese authorities to accept any suggestion or advice that we might care to give in our common struggle against the spread of Communism. I pointed out that to do so would be to take a responsibility we were not in a position to assume and that before anything else could be seriously considered the Chinese leaders ought to be able to unite more effectively than had been the case for some time. Chiang Kai-shek and Li Tsung-jen had been

²⁹ *Supra.*

³⁰ General Cheng Chieh-min (Cheng Kai-ming), Chinese Vice Minister of National Defense.

openly at odds for almost a year and, as far as I could see, this was becoming even more irreconcilable. On the island of Formosa, Governor Chen and General Sun Li-jen were entirely uncooperative and although the latter had recently been given an imposing title, yet the indications seemed to be that the real authority continued with Governor Chen as the agent of Chiang Kai-shek.

He replied that General Sun with whom he had had a thorough discussion just before his departure felt convinced that if he could have the equipment to train 12, or better still 15, M-strength divisions (13,000 men each) he was confident that he could not only defend the island but could defeat the Communists. He said that the native islanders because of their Japanese training made better soldiers and could be willingly recruited. Between the ages of 21 to 30 years 320,000, or if extended to 36 years, 420,000 recruits could be enlisted on the island.

He said that the 4 men closest to Chiang Kai-shek now are: Wang Shih-chieh, K. C. Wu, T'ang Tsung,³¹ Huang Hsiao-ku³² and that he depended chiefly on their advice. The C-C clique³³ had lost influence and were now working chiefly with President Li.

I reminded him that we had given last year, U.S. 125 million dollars which did not seem able to enable them to defeat the Communists whose advance had become increasingly successful and looked as though it would soon cover the mainland of China. Could it be expected that any more assistance of this nature would be of any value at this late date, or that General Sun or anybody else would not have the personal difficulties to which I referred, in addition to complications with all other top level army officers? Americans might be of help in technical matters and material aid but if the Chinese could not settle these personal relations among themselves, any American attempt to do so would merely aggravate the problem. He admitted that they had made serious mistakes and tried to minimize the personal tensions but not very convincingly. He urged that they had determined to institute a number of far-reaching reforms but I remarked that the area in which these could be carried out was rapidly diminishing and that they had announced their intention of doing this more than once before. He said that the plan now was to hold bases on the islands of Formosa and Hainan, in Yunnan and Sikang. In view of Pai Ch'ung-hsi's defeats he would probably go to Hainan.

³¹ Director-General of Police in the Chinese Ministry of Interior.

³² Chief Secretary of Generalissimo Chiang's office of Leader of the Kuomintang.

³³ Faction of the Kuomintang led by the brothers Chen Li-fu and Chen Kuo-fu.

Hu Tsung-nan would withdraw when necessary to Sikang. This latter statement seemed to be a vital admission that Szechuan would soon be lost. He said that General Hu had 11 armies, 7 of which were relatively well-equipped. He understood that the Russians would press the CCP³⁴ to collectivize farms beginning next year and that this would doubtless lead to a great deal of rural discontent and resistance, with the possibility of effective guerrilla warfare. I inquired about the amount of military materiel still on the island of Formosa and he said that the strictly military part of it was practically exhausted, there still were medical and other supplies. As to gold reserves, he estimated that these had dwindled to about 80 million U.S. dollars.

I also referred to the crowded condition on the island, the dissatisfaction of the natives because of the arrogance of mainland visitors, the increased cost of living, etc. and the instability of the naval and air-trained personnel which made them easy victims of CCP infiltration.

He did not stop in New York to see T. V. Soong, H. H. Kung or Madame Chiang Kai-shek, but he came straight to Washington. He will not be in the country more than a month. He intends to keep very quiet and is using the name of Mr. Chen. General P'i³⁵ is acting as his interpreter here. He would like to talk with officers in the Department at their convenience.

After my conversation with him had continued some time, I invited Admiral Badger³⁶ to join us and because of another engagement left them talking together. The Admiral has more than once recommended two tankers of fuel oil and gasoline and some spare parts as the principal need of the Navy and said as much in this interview.

My impression is that Cheng has come on behalf of Chiang Kai-shek in a last desperate effort to get American military aid by playing up General Sun and that while he is personally honest and loyal, yet he has failings which might be summed up as being excessively Chinese and has not grasped the reality of the outlook from the American standpoint. A lengthy cable was sent the same evening to Chiang Kai-shek reporting the essence of this conversation and recommending that K. C. Wu be made the Governor of Formosa which might have been an easy inference from my repeated questionings about the present Governor and the esteem in which K. C. Wu is known to be held by Americans.

³⁴ Chinese Communist Party.

³⁵ Brig. Gen. Peter T. K. Pee, Chinese Military Attaché in the United States.

³⁶ Vice Adm. Oscar C. Badger, Adviser on Far Eastern Affairs, Navy Department, and former Commander, U.S. Naval Forces, Western Pacific.

894A.00B/11-749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 7, 1949—3 p. m.

[Received November 8—4 : 42 a. m.]

674. Chairman Taiwan Provincial Assembly, Huang Chao-chin, during conversations this morning revealed a complete defeatist attitude. He said Formosans have lost all confidence in their Government to defend them against Communists and as much as they oppose Red rule they realize their helpless situation and are resigned to inevitable Communist domination. I inquired if Government could take some action to change this attitude. He repeated that the people and the Government are so far apart that nothing Government could do would change the apathy of the Formosans. American aid, according to Huang, is the only means of restoring confidence of the Taiwanese in their future and alleviating defeatism.

MACDONALD

894A.20/11-949 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 9, 1949—9 a. m.

[Received November 9—3 : 38 a. m.]

678. Generalissimo requested I see him at 5 : 30 yesterday afternoon at which time he read me his reply to *aide-mémoire* left with him on November 3 (see mytel 654, November 3). K. C. Wu present and acted as interpreter after which I was given *aide-mémoire* of Generalissimo's reply.

Following is complete text of *aide-mémoire* handed me :

“After perusal of the *aide-mémoire* delivered to me on November 3, 1949, under instructions of Secretary of State Acheson, I have communicated its contents to the Chinese Government.

“The Chinese Government and myself both attach great importance to the concern which the US Government shows over the situation in Taiwan. I fully share the view that improvement of the political and economic well-being of the Taiwanese people will fundamentally strengthen the security of Taiwan. During recent months the administration of Taiwan has made some serious efforts in that direction and has attained, I believe, a certain degree of success. In the programme which the administration of Taiwan has adopted for the coming year, further concrete measures are provided for the implementation of that policy. I have the conviction that should such efforts be able to continue for another year or more, a new and progressive Taiwan will be built up to satisfy the desires of its people and their sympathetic friends. In the meantime, any concrete suggestion for further immedi-

ate political and economic improvement of the island from the United States Government will be received with the fullest appreciation and consideration by the administration of Taiwan.

“At the present moment, however, Taiwan is facing the most serious menace of a full-scale Communist invasion. Its fate will be decided in the next few months. This is a fact which I cannot refrain from telling frankly the United States Government whose concern over this island we appreciate. Besides facing economic difficulties, the administration of Taiwan is now profoundly anxious about the strength of its armed forces and must endeavour in every possible way to improve it.

“Governor Chen Cheng of Taiwan has been asked by me to make a general statement on the Taiwan situation, outlining the measures which his administration has already taken as well as those which it intends to take in the immediate future, and also stating the position of Taiwan in regard to American aid. A copy of the statement is hereby attached for the consideration of the US Government. It is hoped that the Governor’s requests for American aid, including military assistance of a technical nature, will not be deemed to be outside the scope of the present policy of the US Government. And it is my firm belief that if the US Government decides to meet these requests, they can count on the fullest cooperation from the administration of Taiwan.”

After translating Generalissimo’s reply, K. C. Wu gave me Governor Chen Cheng’s statement on the Taiwan situation, which is being transmitted in a following telegram.⁸⁷

Generalissimo was in excellent spirits. When Wu finished translating Generalissimo’s reply and his *aide-mémoire* and Governor’s statement given me, tea was served and we talked informally for fifteen minutes.

MACDONALD

894A.20/11-949 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 9, 1949—11 a. m.

[Received November 9—5 a. m.]

679. Reference mytel 678, November 9. Following is full text statement by Governor Chen Cheng on the Taiwan situation :

“With the development of adverse circumstances on the mainland, Taiwan has become more and more significant in its strategic and political importance. Strategically, it is more easily defendable than any other part of China and can serve as a base for fighting back and regaining the country. Politically, clinging to democratic ideals, it can be made to demonstrate to the freedom-loving people of China a vivid contrast to the totalitarian tyranny on the mainland, defeating the

⁸⁷ *Infra.*

defeatist view of the invincibility of communism and kindling in the hearts of the Chinese people a hope and confidence for eventual Nationalist recovery. Judging from the limited resources and manpower of this island as compared with the large Communist-dominated area, however, we know that our struggle will be a singularly difficult task and will have to demand long-sustained painstaking efforts.

[“]The Taiwan Provincial Government agrees heartily with the American view that military solidarity and popular support are of primary importance. On the military aspect, great confusion was seen as a result of the retreat to this island of number of troops from Nanking, Shanghai, Tsingtao, Foochow and elsewhere a few months ago. After repeated measure of reorganization, many military units, including army corps and armies, have been abolished, the existing troops are being further trained and substantiated and have been put under one unified command, extensive coastal fortification has been under construction, and general conditions are being gradually improved. The enhanced morale and fighting spirit of the troops have been manifested in the recent battles on Kingmen and Penghu³⁸ Islands.

“In the meantime, the Taiwan Provincial Government has fully realized that the gap existing between the people and the Government should be bridged over and the well-being of the people should be further promoted. To start with, efforts were made to increase production, especially of food, to which extensive irrigation projects and fertilizers, much of which came from ECA, have made conspicuous contributions. In order to bring the benefits derived from production to the masses of people, drastic measures have been introduced in rent reduction for the tenant farmers; such land reform, known as ‘375 rental’ (i.e., limiting rental not to exceed 37.5 percent of the main crop), has produced profound effects on rural economy. The influx of refugees, which caused much concern on this island earlier, has been checked and reduced to minimum by restrictive entry regulations. The menace of food shortage caused by the influx has been offset by increased production, and food prices have been among the most stable commodity prices. Then, a currency reform was introduced in June, whereby monetary deterioration was arrested and a comparatively stable currency was established. For the sake of coordination, all public productive enterprises were placed under unified control. As a result, general economic conditions have been largely stabilized during these few months, though still not without serious difficulties, mainly on account of disturbing influences from threatening Communistic invasion.

“Recently, an outline of a provincial administration program for the year 1950 was passed and adopted in a meeting of the Provincial Government. Politically, the program places the greatest emphasis on the gradual systematic establishment of local self-government on the basis of universal suffrage. Economically, it aims at further increase in production and at the promotion of the well-being of the people,

³⁸ Quemoy and Pescadores.

especially of the farmers and industrial workers. In education, though the present number of school children has already much exceeded that during the Japanese times, it is intended to extend further the opportunities of education to those of scanty financial means.

"As the establishment of self-government at different levels will take some time, it is planned that more of the local capable men will be installed in responsible positions and that more officers in government services in general will be recruited locally. It is believed that in this way the people by more participation will find more interest in the government, and that the betterment of the well-being of the people will be the most powerful safeguard against communism.

"As stated above, the difficulties lying ahead should not be underestimated. While the people and the Government of Taiwan should seek their own salvation in a united effort, we are nevertheless looking forward to assistance from our traditional friend, the United States of America. The economic aid through ECA and its Joint Commission on Rural Reconstruction, including the technical assistance of their experienced experts, has already proved of immense value to this island and made considerable accomplishments. An extended program which the United States Government can provide under the present legislation is requested, for it will not only help to augment the economic stability of this island but will also uplift considerably the morale of the people at the present critical moment.

"The most imminent menace in the next few months, however, will be of military nature. While the fighting forces of this island are determined to put up a stiff resistance against any invasion, we are still in urgent need of some military assistance, at least military assistance of a technical character. We earnestly suggest that an American military advisory group be immediately sent to Taiwan, with whom we can assure close cooperation and for whose advice full appreciation and weight will be given."

I consider this a factual, accurate and realistic statement. The Governor's request for aid is sound and much more reasonable than anticipated. It is my suggestion that we agree to this request in principle and start working out details for implementation immediately. This is no time for indecision or pursuing a procrastinating policy if we really intend to make a last effort to deny the Communists Taiwan, even if it is a gamble as far as the results of our efforts are concerned or the length of time Taiwan can be prevented from falling into hands of Communists. Time is now of utmost importance and as Generalissimo stated in his reply the fate of Taiwan will be decided in the next few months.

Suggestions and recommendations for a military advisory group will be telegraphed in a few days after discussing question with Attachés.

MACDONALD

894A.00/11-1049: Telegram

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

CHUNGKING, November 10, 1949—11 a. m.

[Received 11:04 a. m.]

Cantel 1270. Conversation with Foreign Minister³⁹ November 7, reported Cantel 1268, November 9, 4 p. m.,⁴⁰ repeated Taipei 209, tends confirm our thought, incompletely expressed in final sentence Cantel 1258, November 4, that President Li and his group may well not be displeased at US position regarding Taiwan. Li unquestionably believes main effort must be on continent and that Chinese Government will have no meaning when leaves mainland.

Refusal of US Government to underwrite Taiwan for Gimo will doubtless be used as lever in attempt change Gimo concept of Taiwan as site of last stand. It may be speculated that Yeh as man acceptable to both groups and with wide experience in foreign affairs will fire the first of several heavy guns on behalf of "continental" group in a campaign to force Gimo agree make retention of southwest the major effort. Li also doubtless feels that if arms stockpile and treasury are moved to mainland he will have much greater influence in their utilization. Trained and equipped troops on Taiwan are badly needed as well this area. Seems highly doubtful Gimo will change his views.

Sent Department Cantel 1270, Department pass Taipei 211.

STRONG

894A.20/11-1049: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 10, 1949—11 a. m.

[Received 3:41 p. m.]

690. It is our opinion, as stated in ConGentel 679, Nov. 9, that if it is US intention to comply with Chinese request for military advisers, compliance in initial form should be prompt. However, first public move might best be arranged to come from Chinese, possibly in form of visit by Governor Chen to CinCFE for preliminary consultations, Chou Chih-jou⁴¹ to Stratemeyer,⁴² and Admiral Kwei⁴³ to Admiral Berkey.⁴⁴ These could then be followed up quickly by visits

³⁹ George K. C. Yeh.

⁴⁰ Vol. VIII, "Political and military situation in China", chapter VIII.

⁴¹ Commander in Chief of the Chinese Air Force.

⁴² Lt. Gen. George E. Stratemeyer, Commanding General, Far East Air Forces (FEAF).

⁴³ Kwei Yung-ching, Commander in Chief of the Chinese Navy.

⁴⁴ Russell S. Berkey, Commander, U.S. Naval Forces in the Far East.

to Taiwan of somewhat lesser US officers for survey and recommendations.

Service Attachés here unanimously and strongly support our thought that nothing resembling JUSMAG is needed here nor should be considered. A few carefully selected advisers operating out of CinCFE and FEAF and supported by Taipei Attaché offices should be adequate for the immediate future. Greater morale benefit would accrue, we believe, from officers visiting from Japan, Hawaii and Philippines than from a large permanent establishment here. Return visits by Chinese to those areas would also serve good purpose.

Because of the attitude of both sides by the time of disestablishment of JUSMAG,⁴⁵ American officers identified therewith should not be reappointed in this new effort. This restriction should also apply to military "old China hands". Emphasis should rather be placed on logistics and operations experience and ability.

It is generally believed in all circles that because of rapidity of receipt of equipment purchased with \$125 million aid program, coupled with local confusion and lack of organization and preparation, no true picture exists locally as to what is available or how it can best be used. Without full survey of this, the inevitable later requests for further military equipment cannot be properly appraised.

If the American Government is seriously considering a broader pre-occupation with the affairs and well-being of Taiwan than is contemplated by Chen Cheng's request, much can in our opinion be accomplished from the above recommended small beginnings provided that no opportunity is permitted to recur to Chinese minds that the new advisers are retired officers. A principal adviser of outstanding merit attached to Chen Cheng might be able to obtain the gradual elimination of the currently top-heavy organization here wherein fully discredited "old friends" continue to make their influence felt to the detriment of the defense of the island. This malignant influence extends into local politics and economics as well as into the military picture and could also be corrected as part thereof.

It is our further belief that we should take every precaution to continue the policy at least read into the White Paper and avoid the development of any general thought that our renewed assistance in Taiwan is in support of an eventual triumphant return to the mainland of a rejected Kmt under its present leaders. US interest here is understood by us to be based solely on military strategy. To give the appearance of supporting an unrehabilitated Kmt could well jeopardize our long-term political objectives in China. In denying Taiwan to the Communists, care will be necessary to avoid identifying ourselves

⁴⁵ By March 1949; see bracketed note, *Foreign Relations*, 1948, vol. VIII, p. 269.

with the forces which the Chinese people rejected in favor of communism. Therefore a carefully developed campaign designed to make forceful use of every opportunity to encourage those individuals and groups who are currently working for the elimination of reactionaries and the placement of liberals might succeed in seeing the creation of a resurgent movement in Taiwan which would have that appeal among the people of the mainland necessary to any attempt to pierce the armor of communism and profit by such weaknesses as must inevitably appear there.

If, on the other hand, we thoughtlessly support or even appear to support without reservation the politically as well as militarily rejected Kmt leaders, we run the danger of playing into the hands of Communist propaganda and deserting the basic tenets on which our domestic and foreign policies are supposedly founded.

Although many will argue the point, it is possible that Chinese liberal elements can so regroup themselves about the Generalissimo that his name might regain some of the sweeping national support which he initially obtained and subsequently held until his popular program was taken from him and his high purposes by less honorable Chinese to screen their self-centered operations, thus bringing the reputation of the movement to its present low.

Sent Department 690. Department pass Chungking 218.

MACDONALD

894A.20/11-1049: Telegram

*The Acting Secretary of State to the Consul General at Taipei
(Macdonald)*

WASHINGTON, November 10, 1949—7 p. m.

452. During call at Dept Nov 9 Amb Koo described efforts being made by Chi admin Formosa and pointed to need US aid enable Chi admin build up Island and utilize Island and its resources for recapture mainland. Amb also referred to ur recent statement to Gimo.

Butterworth made fol reply to Koo: Dept had instructed ConGen Taipei make clear to Gimo US Govt had no intention using its armed forces defend Island. This was done in order prevent any misconceptions on part Chi admin re US Govt position. In past Chi Govt had made misapplication of concentration in its efforts obtain US aid and had failed concentrate on more essential and vital internal measures. Past was being brought up only because of its application to present situation Formosa. Island contained all elements in terms admin and technical civilian and milit personnel and resources to enable Chi admin to make Formosa going concern and external aid was of sec-

ondary importance and cld not be effective in absence essential internal measures. It seemed necessary now concentrate on building up Island as example to mainland Chi people of efficient non-Commie Chi admin which wld have beneficial effect in view inevitable comparisons with lot mainland Chi people. Alternative was to concentrate immed on utilizing Island resources recapture mainland at expense internal situation Formosa and dissipation Formosan assets and thus lose support populace and make inevitable repetition on Island of events on mainland. Another misconception held by high Chi quarters was inevitability World War III and desirability doing nothing but await that event which would solve all problems. Chi admin Formosa must rid itself these misapprehensions and concentrate efforts on creating efficient admin rallying popular support and only after such conditions firmly established shld or cld question recapturing mainland be seriously considered.

Koo expressed gen[eral] concurrence foregoing views and said Gen Marshall ⁴⁶ had frequently made same comment to him re Chi expectation World War III wld solve their problems. He further said he had always reported real facts of situation to his Govt but that reports from other quarters reaching Chi Govt may not have portrayed true situation.

In any conversations with ranking Chi officials you shld emphasize foregoing themes.

Full text memo conversation ⁴⁷ being forwarded pouch.

WEBB

894A.20/11-1149: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 11, 1949—2 p. m.
[Received November 11—6:43 a. m.]

692. Yesterday General Sun Li-jen told Assistant Military Attaché Captain Manning and me that he is not yet receiving sufficient cooperation and authority from Governor Chen and his southeast military and political headquarters to execute properly his responsibilities as defense commander of Taiwan. For example, he does not have authority to remove inefficient officers without permission from southeast military headquarters. Some of the officers he is forced to keep are insubordinate and worthless which weakens his entire organization. With regard to supplies, he stated that in most cases he gets seconds while first-class material is given to other commanders. He is con-

⁴⁶ Gen. George C. Marshall, Secretary of State, January 1947–January 1949.

⁴⁷ Not printed.

cerned over his soldiers' pay and emphasized urgent necessity for obtaining funds from some source in order pay soldiers their salaries when due them. He also referred to lack of sufficient equipment and blankets for his troops but it is our belief that plenty of such equipment is on the island for his men. Victories on Kinmen and Tinghai, according to Sun, have given some of the top ranking generals and officials here swelled heads, which he views as dangerous from standpoint of minimizing danger facing this island and its present unpreparedness to withstand full-scale attack.

On favorable side, however, General Sun reported that coastal defenses are now under construction and a series of pill boxes should be completed by end December at latest and possibly by middle December. He has cement and other material necessary for their construction in his possession. About 2 months ago he complained to me bitterly that he had asked for this equipment but had been turned down by General Chen.

Sun also reported progress he had made with Commissioner of Finance, C. K. Yen, in having funds released for repairing highways for military defense.

Although General Sun is still faced with many difficulties and encounters serious obstacles in his defense program from old-line generals with considerable influence, he has and is making progress and the entire situation as far as defense of the island is concerned may be said to be more encouraging now than 2 months ago.

MACDONALD

894A.00/11-1449 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 14, 1949—noon.

[Received November 14—9:13 a. m.]

695. During conversation with Military and Air Attachés and me on November 12, K. C. Wu made statement that efforts of Sun Li-jen were being hampered by interference of old generals. In reply to inquiry as to which were worst and who should go, Wu said Governor Chen Cheng. At close of conversation, he answered another direct inquiry with the statement that he would assume governorship if required.

These statements indicate two new points of view by Wu. First, he was originally a staunch supporter of Chen claiming that only a military man of his background could control numerous old generals on island. Second, he consistently stated after arrival in Taiwan that he would assume no new official position in an unregenerated regime.

It can therefore be deduced, perhaps incorrectly, that Wu believes (1) that military problem no longer exists or (2) that Chen has proven himself incapable this respect; and that regeneration has been accomplished.

During earlier conversation Wu reported Generalissimo's inquiry of Wu and Wang Shih-chieh whether our *aide-mémoire* included desire remove Chen Cheng and if so tell Chen Cheng. When told possibility, Chen reportedly offered resignation.

Basis above and reported general willingness Generalissimo meet all US desires, stage appears set for selection new governor if suggested.

However, in our opinion, any such change would fail to accomplish its intended purpose unless Wu as civil governor and Sun Li-jen as supreme military commander Taiwan were assured by Generalissimo of elimination of present cumbersome organization here, and complete removal of interfering old generals and politicians. Although such a development would have been out of the question a few months ago, it is possible now but will not be accomplished we believe unless US makes some fairly direct approach, possibly through Chinese Embassy, Washington.

Opinions re the governor differ considerably. Department and ECA officers I believe have for some time had the feeling that best results from American aid are impossible under Chen Cheng. Many local Chinese officials in administrative positions regularly complain of Chen's obstruction of their efforts because of his economic ignorance and old style administrative systems. He has surrounded himself with old friends whose reactionary opinions influence him in many ways.

At the same time Moyer of JCRR and technical advisers in J. G. White regard him highly and claim splendid cooperation. Many of his moves reflect a sincere interest in the welfare of the Taiwanese and there is every indication that Chen has, within the limitations of his restricted education and experience and the national military demands on Taiwan, tried to do a good job here.

With few exceptions, however, American officials have found him unsympathetic and possibly because of his lack of English stiff and hard to deal with.

Because of the identification of K. C. Wu and Sun Li-jen with American interests, it is probable that the replacement of Chen by Wu and the elimination of Peng Meng-chi in favor of Sun combined with the appearance on the island of visiting American officer advisers would instill new life and hope among the Taiwanese and Chinese here and go far to remove the growing defeatism among both civilians and the military without the immediate addition of other

American aid. Such a set-up would also permit a greater separation of island and mainland responsibilities.

MACDONALD

894A.24/11-1449

Memorandum of Conversation, by Mr. William McAfee of the Office of Chinese Affairs

[WASHINGTON,] November 14, 1949.

Participants: Mr. Hubert Graves, Counselor, British Embassy
Mr. Sprouse, CA
Mr. McAfee, CA

Mr. Graves called this afternoon and, referring to recent press reports of the continued shipment of U.S. tanks and other military materiel to Taiwan, said that his Government was interested in such shipments because of the possibility of Chinese Communist capture of Taiwan and Nationalist military materiel there. He explained that he was not making this inquiry on instructions from the Foreign Office but that the Foreign Office had expressed its concern in this regard in view of the inevitable strengthening of the Chinese Communist forces which would result from such capture and its relation to Hong Kong. He further stated that, while the British Chiefs of Staff had indicated that the British armed services could withstand an attack upon Hong Kong, this was a matter which was under weekly review by a committee set up by the British Government for this purpose. Mr. Graves expressed particular interest in the matter of tanks and B-25 bombers.

Mr. Sprouse said that we had noted newspaper reports of these recent shipments and that we were endeavoring to ascertain whether this materiel had been purchased under the \$125 million grants or from the Chinese Government's own funds.

Mr. McAfee explained that these shipments consisted of items purchased by the Chinese Government under contracts concluded between 1947 and the early spring of 1949 and that in each case the Department had issued an export license covering such materiel, customarily at the time of the conclusion of the contract. He pointed out that the newspaper reports of the B-25 shipments had apparently been vastly exaggerated and that the number of B-25's was 11 rather than the 100 reported by the press. He explained that the contract for these B-25's had been concluded here in late 1947 or early in 1948. Mr. McAfee also stated that the tanks in question were, so far as he knew, light tanks and did not include Shermans. He pointed out that the Chinese had requested import licenses on tanks which they proposed to purchase as

military surplus from the British Government, some of which were Shermans. The necessary import licenses, he stated, had been granted some time during the summer of 1949 and the tanks may have subsequently been shipped to this country for reconditioning. Mr. McAfee called to Mr. Graves' attention additional Chinese Government purchases of military materiel from other foreign governments, such as Canada, Belgium and possibly Spain.

Mr. Sprouse suggested to Mr. Graves that the British military liaison officers in Washington should be able to obtain from the National Military Establishment some indication of the types and quantities of military materiel now in Taiwan, as well as similar information regarding U.S. equipment captured from the National Government by the Chinese Communists.

Mr. Graves said that the Foreign Office would appreciate being kept informed, if possible, of further shipments of U.S. military materiel to Taiwan in view of the relation of such shipments to the problem of Hong Kong. Mr. Sprouse replied that we would be pleased to give him appropriate information in this regard.

102.21/11-1349 : Telegram

The Acting Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 14, 1949—8 p. m.

457. Re Army tel cite C 53512, Nov 13,⁴⁸ passed to Taipei by Dept. Understand Dept Army sending interim message to SCAP advising that trip be postponed pending further consideration Washington. Will keep you advised.

WEBB

102.21/11-1549 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 15, 1949—noon.

[Received November 14—11:45 p. m.]

703. Reference Deptel 457 November 14, re army telegram cite C 53512. Would appreciate more details purpose this visit and why suddenly postponed. Clearance already obtained and cancellation of trip without providing good reason to local officials might be serious blow their morale.

MACDONALD

⁴⁸ Not printed; it requested diplomatic clearance for a staff team from Far East Air Force to visit Taipei (811.2394A/11-1349).

811.2394A/11-1549: Telegram

*The Acting Secretary of State to the Consul General at Taipei
(Macdonald)*

WASHINGTON, November 15, 1949—5 p. m.

460. Reurtel 703, Nov 15. Dept was of opinion visit of staff team to Taipei proposed by CinCFE wld be inadvisable at this time and wld lead to unwarranted speculation re reasons for visit and possible implications of US mil action in Taiwan. Consequently after preliminary discussion with Dept Army Dept sent Deptel 457 to Taipei and Army sent similar tel to Tokyo. In light however ur unnumbered tel Nov 14⁴⁹ to CinCFE stating clearance obtained which crossed Deptel 457, Dept informed Army objection withdrawn since cancellation after clearance obtained might multiply speculation. Army now sending follow-up tel to Tokyo informing CinCFE no objection staff team proceeding as originally planned.

Dept desires you pass off visit as routine affair in order avoid far as possible publicity and undue speculation re purpose visit.

WEBB

811.2394A/11-1549: Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 15, 1949—7 p. m.

464. ReDeptel 460 Nov 15. Reasons for Dept's concern over proposed visit Taiwan CinCFE staff team similar to those expressed urdes 68, Oct 4,⁴⁹ which pointed out unfortunate publicity re similar previous visit and accentuated speculation re US plans in Taiwan and rumors occupation by SCAP. Dept of opinion you shld render all possible assistance to CinCFE staff team while in Taiwan, while at same time keeping yourself informed of their activities, and that you shld act as channel to any Chi auth[oritie]s they may desire visit.

In event you receive similar requests for clearance in future and shld you have any doubts re appropriateness proposed visits, you shld refer requests to Dept for advisory opinion prior to approaching Chi auths. Urinfo, CinCFE's tel was passed automatically to Taipei by code room without opportunity for Dept to append comments.

ACHESON

⁴⁹ Not printed.

894A.01A/11-1649 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 16, 1949—4 p. m.
 [Received November 16—8:05 a. m.]

711. ReDeptel 464. Consulate General was under impression Department had been fully advised regarding nature of proposed visit CinCFE staff team to Taipei, otherwise Chinese authorities would not have been requested grant clearance.

If we are considering starting Taiwan assistance, I strongly feel visits of well-selected military teams from Japan or other areas highly advisable immediately. However, such visits should have Department's prior approval and this office should be informed of nature of visit and type of information sought. Any activities engaged in here by SCAP personnel should be coordinated closely with State and Consulate General in order prevent confusion, misunderstanding and unneeded speculation.

MACDONALD

894A.20/11-1849 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 18, 1949—7 p. m.

470. Fol are Dept's views re inquiries, comments, and suggestions contained ur recent tels cited below.

In ur 662 Nov 11 [5] you inquire what Dept's criteria are by which to measure "improvement in polit and econ well-being people Taiwan" and "how many steps will have to be taken [by Chen] to show that he acting in good faith". As you aware US policy is endeavor deny Formosa [to] Commies by using polit and econ means. Resources on Island now available Chi appear adequate at this time if resolute steps taken utilize these resources effectively; until these steps taken, any commitment of increased US support wld not contribute to achieving our objective since it wld probably lead to Chi conviction US assuming active role and responsibility and that Chi self-help measures not essential and wld thus in end be costly to US in terms of its prestige as well as resources and very possibly achievement polit objectives on mainland. While these costs are not decisive and might be incurred if sound prospect success were offered thereby, it wld, of course, be foolhardy incur them without such prospect success. As was pointed out in 452 Nov 10, Dept believes Formosa contains all elements in terms admin and technical, civ and mil personnel and resources to enable Chi admin make it going concern and external aid of secondary

importance and could not be effective in absence essential internal measures. Consequently, Dept's principal criterion by which to measure improvement polit and econ well-being Formosa is that such substantial advances in this and other fields relating Formosan security shall be made as to offer sound prospect that with continuation or expansion of ltd aid which US is currently supplying Island can be successfully denied to Commies. Dept has noted unencouraging appraisal of situation contained ur 446 Sept 6 and 453 Sept 7 and fact that ur present appraisal apparently more optimistic. Since criterion depends upon over-all appraisal situation Formosa, it obviously impossible state in advance how many or what specific steps or measures wld have to be taken to meet it.

This wld depend upon manner in which measures carried out and effectiveness measures themselves in improving situation—factors which cannot be measured in advance. Furthermore, perhaps even more important than any specific measures is need for some kind spiritual regeneration Chinese leaders themselves which wld lead them lay aside self-aggrandizement and internal bickering and devote themselves with determination and patriotism to their cause and which wld revitalize their followers. External aid cannot supply such leadership. In connection this general question Nason⁵¹ ECA now in Formosa making survey situation with view submission recommendations re ECA economic aid program for consideration upon his return Washington.

Dept has noted with concern statement K. C. Wu reported ur 664 Nov 6 that he had told Gimo that this his last chance as far as US concerned and "to agree to any terms that might be forthcoming". Msg to Gimo was not opening gambit to be followed by specific demands or "terms" but was designed to place Gimo clearly on notice that US had no intention of using its armed forces to defend Island and that responsibility for undertaking effective measures with respect internal and external security Formosa rested squarely upon him and Chi auths who were appraised of this notification. Through K. C. Wu, C. K. Yen, and Sun Li-jen you shld do what you can to clear up any possible misunderstanding this point (See Deptel 452 Nov 10).

With reference to ur 678 Nov 9 and 695 Nov 14 re possible change of governorship upon US initiative, US Govt can not place itself in position of advising Chi Govt re polit appointments. To offer such advice is to accept responsibility for developments arising from the acceptance thereof and inferentially to commit US Govt to support of succeeding admin regardless of US interests. You will appreciate that advice such as that now being provided by ECA, JCRR and J. W. [G.] White

⁵¹ John Nason, Director of ECA China Program.

Engineering Co. is entirely different in import and connotation from advice of essentially political character such as appointment or discharge of officials.

Similar considerations apply to suggestion contained in ur 679 Nov 9 and 690 Nov 10 respecting providing of US military personnel to act as advisors to Chi Govt. It is evident that presence of such advisors would soon become well publicized and widely interpreted as evidence of American intention to underwrite military defense of Island. Damage to US prestige would be very great if notwithstanding presence of such advisors, Island's defenses collapsed for same reasons responsible for collapse on mainland, i.e. failure of Govt to take steps necessary to secure popular support and raise troops morale. Furthermore, Chi would undoubtedly look upon presence of American advisors as a channel to exploit for extraction of American aid rather than addressing their full efforts to the pressing problems which only they can solve. In any case, it would be unwise to permit attachés on Formosa to become involved in advisory functions which is contrary to our world-wide practice respecting service attachés and would in this instance place service attachés in Communist areas in jeopardy. Limitation of private American citizens whose services were contracted directly by Chi Govt without responsibility on part of this Govt would be as effective as official advisors if Chi sincerely desire advice and this might be accomplished with substantial reduction of risks to this Govt set forth above.

As long ago as last June Admiral Badger transmitted to Navy Admiral Kwei request for limited number of naval advisors. In reply CNO⁵² stated "In view of the complete withdrawal of JUSMAG from China, the well-established US policy not to participate in the Chinese fratricidal war, the existing governmental decision that in the initial stages care should be exercised to minimize the appearance of US officials on Formosa and the belief that this request if granted would only encourage Kwei to make greater demands for aid, the Chief of Naval Operations does not approve active or retired US Naval officers in an official capacity assisting the Chinese Nationalist Navy, but perceives no objection to the Chinese Govt making individual arrangements to employ former Naval officers as advisors in a private and civilian capacity". Chi Navy has not, insofar as is known, made any effort to obtain advisors on basis outlined in this message.

In reply to Chen Cheng's suggestion (urtele 679 Nov 9 and 662 Nov 5) that "American military advisory group" be sent to Taiwan, you should refer to Admiral Kwei's request and Navy reply thereto and add that Dept would not oppose employment on Chi initiative and responsibility of

⁵² Chief of Naval Operations.

former officers of other services or other private Amers in private and civilian capacity if this deemed desirable.

Contents this msg intended to assist you in removing any misconceptions re our attitude which may exist on part Chi auths.

ACHESON

894A.00/11-1949: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 19, 1949—noon.

[Received November 19—1:26 a. m.]

721. C. C. Huang of PPC⁵³ tells us Governor Chen's opinion that people are solidly behind Government is not correct and that dissatisfaction is general. Greatest fear is that Kmt Govt would come Taiwan from Chungking, placing further heavy burden on Taiwan. Feeling is local Kmt Government bound to collapse sooner or later due lack of funds and people will not back lost cause to detriment future treatment by Communists. Good men will not run in forthcoming elections. However, if American interest were known and support available, people would renew activity with hope of salvation.

Huang claims he has been urging Governor Chen Cheng group to issue proposed series new defense regulations which would only perturb people and to place emphasis on improving present setup rather than follow usual Chinese tendency to reorganize. Cite Chen proposal to divide island into innumerable small districts under new local self-rule plan in order accommodate maximum number officials rather than continue highly efficient Japanese system of five principal hsien. Huang expressed particular displeasure with Peace Preservation Corps of General Peng for such things as suppressing signs in English and requiring shops mark prices. Latter resulted in immediate 30 per cent price increase in fear of imminent price freeze.

MACDONALD

894A.20/12-149

Memorandum by the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] December 1, 1949.

Subject: If Formosa Falls.

For the purposes of this memorandum it is assumed that at some uncertain date in the future Formosa will either be successfully invaded

⁵³ People's Political Council.

by Communists from the Mainland or that the Island by a deal or otherwise turns over to the Communists.

It is assumed that prior to such event the Congress and the American people will have been prepared for this unhappy event by process of increasingly frank discussion of our policy with respect to Formosa.

Other steps involving strategic and political preparation must also be taken in advance in order to release on D-Day a carefully prepared series of decisions and announcements designed: *a)* to reassure the American people as to the preparedness and competence of this Government; *b)* to minimize the psychological repercussions elsewhere in the general area; and *c)* to repair or neutralize the resultant shift in the strategic balance of our defenses.

Under *a)* above we should have prepared and cleared in advance statements for the Secretary which could be released on D-Day covering the following subjects:

- 1) A calm and reasoned statement of why preventive military action by the U.S. was impossible and stressing our non-predatory tradition;
- 2) An announcement that ECA aid had been suspended, and;
- 3) A submission to the Security Council of the United Nations of the facts of the case with the statement that we regarded it as a threat to world peace, this latter step being designed not to provoke a military adventure under UN auspices but for the purpose of fully ventilating the facts and placing the Communists in an unfavorable world light.

b. We should also have prepared for despatch telegrams explaining our position to Korea, the Philippines, Siam, USI,⁵⁴ India, Pakistan, Australia, New Zealand and the British, French and Dutch.

We should arrange for the prompt release of a statement breathing calm and confidence by General MacArthur in Tokyo.

c. We should also have available for prompt release some significant decision or action in the field of national defense. I have in mind some such step as the announcement of the formation of a Joint U.S.-Philippine Defense Board or, for example, a unilateral assumption of responsibility for the defense of Japan.

Assuming that in the interim some association of Pacific or Asiatic states is maturing, we should shortly after D-Day take some constructive forward step to indicate our interest in or willingness to participate directly in such an association. In this connection, we should bear in mind that the loss of Formosa, meaning the liquidation of the Nationalist Government, would automatically remove the most dangerous and unattractive feature of the original Quirino proposal.⁵⁵

⁵⁴ United States of Indonesia.

⁵⁵ For President Quirino's meeting with Generalissimo Chiang Kai-shek in July, see volume VII.

Finally, I am inclined to think that we should attempt to arrange for a moderate and well-publicized increase in our Far Eastern fleet and soon thereafter arrange for a series of visits of that fleet to Manila, Singapore, Surabaya, Bangkok (if the harbor is open) and possibly Korea.

The important thing, it seems to me, is that we should meet this expected unhappy event with calm, followed by a series of calculated and prepared positive reactions.

If you agree with the foregoing in general outline, I suggest that we discuss it first with Mr. Sprouse⁵⁶ and Mr. Connors⁵⁷ and then with Mr. Davies⁵⁸ with a view to assigning an individual or a group to be responsible for all of the varied and complicated staff work. We should, I believe, start on such a program without loss of time.

693.002/12-349 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, December 3, 1949—9 a. m.

[Received December 3—2:26 a. m.]

766. Point brought out by L. K. Little of China Customs with ECA Nason believed worthy of relay is: Announced US policy is to resist communism at Chinese borders; regardless of opinion elsewhere Far Eastern peoples consider Taiwan outside China; therefore, if US allows Communist take over Taiwan doubt will develop in Japanese and Southeast Asian minds as to sincerity US pronouncement and advisability their own resistance. In addition many in same areas consider US has special responsibility for Taiwan through its military liberation of island, Yalta and Cairo Declarations,⁵⁹ and dominant position rest Japanese Empire. Concluding, Little said, of course, nothing constructive possible while Generalissimo still around.

This office unable comment on Japanese or Southeast Asian thinking but above does reflect general Taiwanese opinion.

Little believes sufficient qualified Chinese here willing and able to insure good administration if given opportunity. Criticized Governor Chen Cheng for unthought-out decisions and insistence on personally

⁵⁶ Philip D. Sprouse, Director of the Office of Chinese Affairs.

⁵⁷ W. Bradley Connors, Officer in Charge of Public Affairs, Bureau of Far Eastern Affairs.

⁵⁸ John Paton Davies, Jr., member of the Policy Planning Staff.

⁵⁹ For Cairo Declaration of December 1, 1943, see *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, p. 448. No declaration regarding Taiwan was issued at the Yalta Conference, February 4-11, 1945. For correspondence on the Conference, see *ibid.*, The Conferences at Malta and Yalta, 1945.

determining most minor procedures without consultation with administering officials.

Sent Department 766; repeated Manila. Department please pass Tokyo, Saigon, Bangkok, Rangoon.

MACDONALD

894A.20/12-549 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, December 5, 1949—5 p. m.
[Received December 5—4:10 p. m.]

775. Suggestion contained in penultimate paragraph of Deptel 470, November 18, not yet conveyed Governor Chen Cheng because it is deemed advisable wait for decision on Nason's recommendations for continued economic aid (see mytel 774, December 5⁶⁰).

When ECA program for future economic assistance Taiwan is determined, it is suggested this Consulate General then be instructed reply to Governor Chen's request for economic aid and military advisors (mytels 662, November 5 and 679, November 9). Inasmuch as Department's message to Generalissimo and Chen Cheng was delivered in form of *aide-mémoire* and their request for assistance was in same form, I suggest Department's reply be handled same manner. When ECA program determined, Department can telegraph Consulate General wording to be used in *aide-mémoire* for Governor Chen in reply to his request for economic assistance and military advisors.

MACDONALD

894A.00/12-649 : Telegram

The Ambassador in the Philippines (Cowen) to the Secretary of State

MANILA, December 6, 1949—3 p. m.
[Received December 6—4:46 a. m.]

2755. We have read with interest statement L. K. Little (Embtel 2729, December 2,⁶¹ Taipei's December 3), regarding probable reactions SEA⁶² should US permit Communists take over Taiwan. Under Secretary Neri in conversation with officer Embassy December 3, alluded published suggestions US might take control that island, voiced question as to existence Chinese right thereto and said that, speaking merely for himself, he thought Filipinos would feel much more secure were Taiwan to be occupied by US rather than by Chinese Communists.

⁶⁰ Not printed.

⁶¹ *Ante*, p. 211.

⁶² Southeast Asia.

We suspect Neri's line thought provoked by discussion previous day during third meeting *ad hoc* committee consider Philippines policy with respect recognition Chinese Communist regime. . . . Source quotes his information as saying question was raised why US unwilling defend Taiwan and that Colonel Garbriel and Lt. Colonel Salientes explained it in terms US disappointment Chiang's failure effectively use aid previously given his Government. Foreign Office members committee stated then to have required meeting members on US attitude regarding defense of Philippines.

Informant states they replied US greatly interested therein but specific military measures taken by US with respect Philippines would depend upon overall strategic consideration.

COWEN

894A.24/12-649

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 6, 1949.

Participants: H. A. Graves, Counselor, British Embassy
Livingston T. Merchant, FE
Philip D. Sprouse, CA

Mr. Graves called this afternoon at his request and after handing Mr. Merchant the attached memorandum regarding Formosa, dated December 6, 1949,⁶³ explained that the Foreign Office had instructed the Ambassador⁶⁴ to take up with the Secretary of State certain questions relating to Formosa. He said that since the Ambassador was out of town temporarily and would not return for a day or two he was bringing this matter to the Department's attention. Mr. Graves requested that the Secretary be informed of the British action in this matter inasmuch as the British Ambassador hoped to call on the Secretary within the next few days.

Mr. Graves briefly reviewed the concern previously expressed by the British Government, both in Washington and in London, regarding provision of military supplies to the National Government and the danger that these supplies would eventually fall into Chinese Communist hands. He pointed out that the British were particularly concerned with the shipment of tanks and planes for Formosa and expressed apprehension lest the Chinese Communists might eventually be in a position to use such equipment against Hong Kong and/or

⁶³ *Infra.*

⁶⁴ Sir Oliver Franks.

French Indochina. Mr. Graves recalled that Mr. Bevin and Mr. Schuman⁶⁵ had expressed their concern along these lines to the Secretary at Paris in November but that he did not know what reply the Secretary had made. He said that the British Government was interested in knowing whether the U.S. Government was disposed to halt the shipment of military materiel to Formosa at this time and what the views of the U.S. were regarding Formosa, what information regarding U.S. policy toward Formosa could be told to the British Government and what the U.S. Government expected to do about Formosa.

Mr. Merchant briefly reviewed current U.S. policy toward Formosa. He said, emphasizing he was speaking in the strictest confidence, that the highest U.S. military authorities after studying the strategic importance of Formosa had reached the conclusion that U.S. armed forces should not be employed for the defense of the island. Mr. Merchant continued that about a month ago we had authorized the U.S. Consul General at Taipei to approach the Generalissimo and make clear to him that the U.S. Government had no intention of using its armed forces for the defense of the island. This step had been taken in an effort to impress upon the Generalissimo and his associates the need for energetic efforts on their own part if they were to be successful in denying the island to the Chinese Communists. Mr. Merchant pointed out it was the U.S. Government's belief that sufficient military, economic and financial resources were available on the island to the Chinese Government to enable it to make a successful defense of Formosa and that the prime requisite was the will to stand off the Communists. In answer to Mr. Graves' query whether the U.S. Government's attitude regarding Formosa now differed from that expressed to Mr. Denning in September, when the latter was in Washington, Mr. Merchant replied that under existing circumstances it seemed likely the Chinese Communists would eventually be able to take over the island but that there was a hope that the Nationalists might so exert themselves as to prevent such an eventuality. Mr. Sprouse explained that it was the U.S. Government's view that the only guarantee of the denial of the island to the Chinese Communists lay in U.S. military occupation of Formosa. He asked whether the British Government had any suggestions as to how this might be accomplished and what its views were with regard to Formosa. Mr. Graves replied the British Government's views had just been stated and that the British Government believed, as did the U.S. Government, that all the essential ingredients for successful defense of

⁶⁵ Robert Schuman, French Minister for Foreign Affairs.

the island were available to the Chinese Government. He added it was the British view, however, that the Communists would probably gain possession of the island within the next few months.

With respect to the furnishing of military materiel to the Chinese Government on Formosa, Mr. Merchant explained that the materiel now going forward to Formosa consisted of shipments under the \$125 Million Grants as well as supplies purchased by the Chinese with their own funds. He further stated that this was a relatively small amount, particularly with respect to planes, compared to the materiel already on the island. When Mr. Graves expressed the opinion that it seemed paradoxical to continue shipments of military materiel when it was believed that the Chinese Communists would eventually capture the island, Mr. Merchant pointed out that the U.S. Government desired to take all feasible and practicable steps to assist the Chinese Government in preventing Communist occupation of the island and that by so doing it was, on the one hand, possible that the island might be successfully defended and, on the other hand, such action was at least buying time. Mr. Merchant concluded he did not believe that the U.S. Government would be disposed to take steps to halt the shipment of military materiel now going to Formosa for the Chinese Government.

894A.24/12-649

The British Embassy to the Department of State

777/26/49

MEMORANDUM

FORMOSA

According to information received by His Majesty's Government substantial quantities of American military equipment are now reaching Formosa. A hundred tanks and eight B.25 bombers were recently unloaded, and it is reported that further large consignments of tanks as well as up to one hundred additional B.25 bombers are expected. Aviation spirit is included amongst other essential military supplies reported to have recently arrived in Formosa from American sources. As far as is known, many of these items seem to have been purchased by the Chinese Nationalist authorities from American surplus stores through private contracts with individual American firms, the necessary export authority having been given by the State Department.

2. During Mr. Bevin's visit to Washington in September last his advisers gained the impression, from talks with officials of the State

Department, that the United States Government had concluded that no practical steps could be taken to prevent Formosa falling into Communist hands, and that such a development was in fact inevitable. For this reason the continuing supply of military equipment does raise in the mind of His Majesty's Government a doubt as to whether this course will not eventually bring about a dangerous state of affairs.

Unfortunately it is to be feared that limited support to the Chinese Nationalists in the Island will be inadequate to stop the Chinese communists from securing control, sooner or later, with the serious consequence that the supplies of American arms would fall into their hands. It would seem that the loss of the Island could only be prevented if the United States Government were prepared to assume large scale and long term responsibilities for its protection, but there has been no indication that this may be expected.

3. His Majesty's Government feel much concern at the above circumstances and hope that the United States Government will feel able to take steps to stop or restrict the flow of arms from the United States to Formosa.

4. His Majesty's Government also hope that they may be kept informed of the views of the United States Government regarding the complicated situation which has arisen in Formosa.

WASHINGTON, 6 December, 1949.

894A.24/12-649

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 7, 1949.

Attached is a memorandum of a conversation⁶⁶ with Mr. Graves, Counselor of the British Embassy, which foreshadows what the British Ambassador will say to you tomorrow regarding Formosa. Mr. Graves also left an *aide-mémoire* which is likewise attached.⁶⁷

Also attached is a memorandum listing the military supplies which remain to be shipped to the Chinese Government on Formosa, some of which have been purchased from the \$125 million grants and other items which have been procured by the Chinese with their own funds.

W. W[ALTON] B[UTTERWORTH]

⁶⁶ December 6, p. 435.

⁶⁷ *Supra.*

[Annex]

MEMORANDUM

A list of military materiel procured or being procured for the Chinese Government by agencies of the U.S. Government under the \$125 Million Grants which has not yet been shipped is as follows:

ESTIMATED AS OF NOVEMBER 1, 1949

	<i>Quantity</i>	<i>Value</i>
Light tanks	100 ea.	
Scout Cars, M3A1	100 ea.	
Motor carriages, 75 mm. Howitzer	125 ea.	
Rifles, Auto., Brng., M1918A2 (BAR)	1, 000 ea.	
Mounts, combination, M23A1 for 37 mm. Gun (used on light armored car)	100 ea.	
Shells for 4.2" Chemical Mortar	25, 000 ea.	
Tires (various)	7, 000 ea.	
Automotive spare parts		\$1, 680, 000
Weapons spare parts		85, 000
Tools and tool sets		240, 000
Raw materials (inclusive of gun powder)		1, 850, 000
Antimony sulphide (for vulcanizing rubber)	5, 000 lbs.	
Gyro stabilizers	100 ea.	
Dry batteries	40, 000 ea.	
Radio sets	600 ea.	
Radio spare parts		6, 500
Electrical equipment (including one 5 KW Diesel driven generators per set)	12 sets	
Medical supplies and equipment		995, 000
Vacuum tubes		47, 000
Naval spare parts (hull and engi- neering spares)		265, 000
Aircraft spare parts		305, 000
Plastic film		80, 000

The foregoing is a listing of significant unshipped items. Miscellaneous other items requested by the Chinese Government remain to be procured and/or shipped. A rough estimate of the dollar value of all unshipped items, by federal agencies concerned, is as follows:

Army	\$6, 793, 500
Navy	310, 000
Air Force	390, 700
Treasury—Bureau of Federal Supply	500, 000
	<hr/> \$7, 994, 200

The following list covers military materiel being procured by the Chinese through commercial sources in this country on which as yet unused export licenses have been issued. Some of the items listed are being procured with funds from the \$125 Million Grants, but the exact quantity of such items is not known.

A. *Items other than Aircraft and Aircraft Parts*

1. Items approved for export

	<i>Quantity</i>	
Drop steel forgings		\$4, 550
Tank spares	400 tons	60, 000
Motor carriages tracks	40 sets	19, 000
Motor carriages (in transit from U.K.)	30 ea.	75, 000
Sherman tanks (in transit from U.K.)	85 ea.	300, 000
Powder and ammunition		205, 475
Propellant flakes and powder		668, 520
Cartridges (in transit from Canada)	81, 000, 000 rnds	4, 900, 000
Ammunition,* .30 caliber		21, 281
Shot firing cord		4, 570
Motor carriages*	42 ea.	100, 000
Light tanks and dozers	9 ea.	72, 000
Mauser rifles & ammunition, 7.9 mm (in transit—Belgium)		4, 215, 000
Mauser rifles & machine guns, 7.9 mm (in transit—Belgium)		559, 100
Telescopes and periscopes		2, 300
Gun-sights		1, 000
Gun-sight noise filters		45
Smokeless powder		3, 355
Rocket igniters		5, 500
Tanks spare parts*	200 tons	30, 000

2. Items not yet approved for export but requested by the Chinese Government.

Used light armored cars*	200 ea.	\$50, 000
Used tanks with flame throwers*	4 ea.	8, 000
Tracked landing vehicles*	156 ea.	75, 000
Staghound armored cars (in transit from United Kingdom)	200 ea.	200, 000
Rifles and machine guns (in transit from Belgium)		84, 000
Machine guns (in transit from Belgium)	3, 000 ea.	1, 395, 000

B. *Aircraft and Aircraft Parts*

There are still valid export licenses for approximately \$6,800,000 worth of aircraft and aircraft parts purchased commercially by the

*Items for which the Chinese have made arrangements with Commerce International Trading Corporation for purchase from U.S. Army surplus stocks. [Footnote in the source text.]

Chinese Government. As this total includes some \$2,700,000 for 180 AT6 aircraft which have been reported by the Chinese to have been shipped on a continuing basis throughout this year, it is believed that a good portion of the \$6,800,000 total has already been shipped, though customs reports on such shipments have not yet reached the Department.

894A.00/12-749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, December 7, 1949—1 p. m.
[Received December 7—6:50 a. m.]

788. K. C. Wu called unannounced this morning to inform us that Nationalist Government has requested him to assume governorship of Taiwan. He has sent special messenger carrying his acceptance provided following powers granted him: (1) He can establish truly democratic form government there, (2) personally choose his officials, (3) control all national and provincial organs here, (4) attend all military conferences.

Wu claims Generalissimo will accept demands but less certain of Yen.⁶⁸ Reply may be slow due also to uncertain whereabouts top officials.

Wu assumes Chen Cheng will continue to head southeast command but would have little say in local civil affairs. He mentioned several leading Taiwanese he would want about him, particularly Chiang Wei-chuan. Mentioned unpopularity of C. K. Yen but offered no substitute. Pointed out all governors always control garrison, thus "taking place of General Peng". General Sun Li-jen should have complete local military responsibility within several months if US aid comes first. Without aid, economy will collapse in two to three months. Confirmed C. K. Yen's previous estimate that Nationalist gold on island just over one million ounces.

He hopes US will accept change as first step in right direction and give indication of interest and possible aid since all necessary reforms and reorganizations will take months and not succeed if aid not forthcoming on step by step basis.

MACDONALD

⁶⁸ Marshal Yen Hsi-shan, President of the Chinese Executive Yuan (Premier).

894A.24/12-849

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 8, 1949.

Participants: Sir Oliver Franks, British Ambassador

The Secretary

Mr. W. Walton Butterworth, Assistant Secretary, FE

The British Ambassador called this morning at my request and I explained to him that I wished to discuss with him the question of recognition of the Chinese Communist regime. He said he was glad that I had sent for him because he also had two or three matters which he wished to raise, particularly, the question of Formosa and the discussions at the Ceylon Conference regarding a possible Japanese Peace Treaty.

By agreement, we began with Formosa. Sir Oliver Franks said there were two aspects of that question of concern to his Government. In the first place, they were concerned about the further shipment of military supplies from this country to Formosa and, in particular, such weapons as medium and heavy tanks and aircraft since it was their considered view that through defections Formosa would sooner rather than later pass into the hands of the Chinese Communists who might well at some stage use such materiel and weapons against Hong Kong. I summarized for the British Ambassador the status of shipment under the \$125 million grants as set forth in the attached documents⁶⁹ and in this connection called his attention to the possibility that Sherman tanks and Staghound armored cars might have been purchased or were in the process of being purchased by the Chinese in the U.K. for repair in this country and onward shipment. I pointed out the implications both foreign and domestic of our arbitrarily cutting off remaining shipments to Formosa which would amount to less than \$8 million (as of November 1) of the \$125 million. The fact was that through these previous shipments and through shipments from the Mainland to Formosa there was such a wealth of materiel on that Island that any such action on our part would be of insignificant practical value. I did agree, however, to look into the question of medium and heavy tanks since the British Ambassador had represented that the British military in Hong Kong had not now in their possession anti-tank weapons that could deal with other than light tanks and in view of the undesirability of diverting to Hong Kong such weapons. I expressed the view that I thought it would be possible if export licenses had not already been issued to deal with these two categories. Sir Oliver Franks vouchsafed that the figure on aircraft indicated in the

⁶⁹ Annex printed on p. 439.

memorandum which Mr. Graves presented on December 6 was incorrect and he seemed to agree that so numerous were the aircraft already on Formosa that such additions did not constitute an important aggravation of the problem.

The British Ambassador said that in the second place he wished to inquire whether our attitude toward Formosa had undergone a change since Mr. Bevin's conversations in Washington. I told him that the President had approved the recommendations of the Joint Chiefs that Formosa was not of sufficient strategic importance to make it desirable for the U.S. Government to employ force to prevent the Island falling under the control of the Chinese Communists though we were seeking by political and economic means to do everything feasible to prevent that. To this end, we had recently attempted to disabuse the Generalissimo of any misconception he might have had in this respect and to exhort him to take the necessary action to consolidate the position since all the ingredients for success were available on the Island.

[For next section regarding question of recognition, see page 219.]

894A.00/12-849

The Consul General at Taipei (Macdonald) to the Secretary of State

No. 120

TAIPEI, December 8, 1949.

[Received December 28.]

I have the honor to enclose a translation of the draft⁷⁰ of the principles governing the enforcement of self-government in hsien and municipal areas in Taiwan as drawn up by the Governor's Self-government Research Committee and recently published in the local press.

The Governor's committee was organized some three months ago under the chairmanship of Chang Li-sheng, former Vice President of the Executive Yuan and Minister of Interior.

If these proposals are adopted by the Provincial Government they would, according to local officials, in the normal course of events be returned to the Governor for submission to the National Government through the Ministry of Interior. From the Ministry of Interior they would go to the Legislative Yuan then to the Executive Yuan and finally receive the signature of the President of the Chinese Republic. To insure more rapid action and in view of the uncertainties in the mainland at present Taiwanese administrative conference is recommending that they be put in force immediately and subsequently sent to such National Government establishments as can be found.

⁷⁰ Not printed.

Chinese citizens of twenty years of age and over will have the rights of suffrage, recall, initiative and referendum. Councils will be set up in each hsien and municipal area, their size being determined by the population concerned. One-tenth of the members will be female. Each hsien will have a Magistrate elected by the people and each municipality a Mayor. The smaller political divisions known as *hsiang* and *chen* will also be entitled to elect their public officers.

Although the proposals appear to be in accordance with the usual procedures of democratic self-government, unfortunately the Taiwanese reaction in many quarters is not optimistic. The Taiwanese point out that they had little or no part in developing the desired procedures and that so long as the unpopular Chinese officials must be looked to for the implementation of the program corruption and political chicanery will be inevitable and a true expression of Taiwanese desires impossible. Although there is undoubtedly much justification for the doubts expressed by the Taiwanese, their attitude is typically defeatist, and more satisfactory results might be obtained if something could be done to arouse their interest and obtain their cooperation and full participation.

Respectfully yours,

JOHN J. MACDONALD

893.02/12-1449 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 14, 1949—8 a. m.

[Received December 14—1:29 a. m.]

818. L. K. Little offered resignation as inspectorate [*inspector*] general Chinese Maritime Customs on grounds health and no longer need of inspectorate general with only Tainan and Taipei customs houses open. Finance Minister rejected resignation on grounds national reputation and morale but granted 6 months' leave which Little is starting immediately but on self-imposed greatly reduced pay in interests national economy.

I plan cite this example praiseworthy, realistic approach to Government's current desperate financial position and no longer useful organizations in future conversations Nationalist officials in probably vain hope others may do likewise. However, on own initiative Hollington Tong several days ago asked my reaction to Chinese dollar-a-year men, so some such thinking on general subject may exist in highest quarters.

Sent Department 818; repeated OffEmb Hong Kong 227.

EDGAR

894A.00/12-1449 : Telegram

*The Consul at Taipei (Edgar) to the Secretary of State*TAIPEI, December 14, 1949—3 a. m. [*p. m.*?]

[Received December 14—10:01 a. m.]

822. In great agitation K. C. Wu called last evening and stated that the opposition including Wang Shih-chieh and Chen Cheng had won out and that his provisos (see mytel 788⁷¹) had been rejected. Generalissimo is now offering him title of Acting Governor with 1 month to get American support. If successful, Wu would then be granted the full powers he had requested.

Wu wanted advice whether he could expect US aid under such conditions and within 1 month. I pointed out that such decoy measures did not appear to meet requirements of recent *aide-mémoire*. So far as I knew, the Chinese subsequent to receipt of that notice had taken no action toward creation of efficient administration. On contrary, they had recently transferred unneeded Liu An-chi Army from Hainan and useless lot of government officials from mainland. I continued that Generalissimo appeared as usual more interested in US aid than in basic reform and preferring half measures to forthright facing of facts. Taiwan did not now need US material aid but US moral support and that only way toward latter was through drastic reform. I cited Little [as] example (mytel 818, December 13 [14]).

Wu agreed but asked if I could obtain Department's agreement to aid if he promised subsequent reforms. I replied that I did not recommend such procedure by Department and also doubted if US Government would be interested in more Chinese promises.

He left stating he would phone Generalissimo his rejection of offer.

EDGAR

893.00/12-1449 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 14—1949—4 p. m.

[Received December 14—5:33 a. m.]

825. K. C. Wu came this morning directly from Generalissimo to say that after long night session Generalissimo had prevailed and obtained agreement to Wu governorship and provisos and wanted immediately announcement. Premier Yen remained neutral throughout. Wang Shih-chieh came over due to Wu's "courageous stand".

Wu now busily selecting new government. Plans replace C. K. Yen due latter's unpopularity with Taiwanese with Jen Hsien-chuen.

⁷¹ December 7, 1 p. m., p. 441.

Generalissimo will make Yen National Minister of Economy. Wu considering all big Taiwanese names. Hopes have some influence on military through attendance at military conferences but doubts any early real reform there. Has asked Generalissimo remove General Peng.

EDGAR

893.20/12-1649: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 16, 1949—4 p. m.
[Received December 16—6:50 a. m.]

839. At his request called yesterday on General Sun Li-jen who asked if any word yet on request for military advisers. I replied no and stated I and Attachés could see no evidence of Chinese efforts toward military reorganization. Sun begged that some move be made by US. He had 1 hour's conference with Generalissimo previous day and spoke frankly of need for military reorganization and simplification. Generalissimo appeared definitely influenced by Sun, has no Chinese Generals willing or able "or with sufficient military strength" to reinforce his appeal but believes that time is ripe for American intimation of need for change, "Otherwise old generals will continue control policy". K. C. Wu has been told by General to keep out of military affairs.

Sun had talked with Wu and felt encouraged on civil score but urged US approach to Generalissimo or military without which no possibility civil success. Also requested military aid step by step where conditions were best. Believes military can hold alone for 6 months but plan should be made now for next period and must include outside aid.

I reiterated that US would probably make no positive move prior to evidence of Chinese willingness to face facts and reform in accordance with realities of current desperate situation. Sun asked me at departure, please do my best explain situation to Washington.

EDGAR

894A.00/12-1949: Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, December 19, 1949—7 p. m.

572. Intelligence agencies reviewing prospects Taiwan. Request urgently ur estimate fol:

1. Present popular support Nationalist Govt, Commies, Taiwanese independence leaders, and factors influencing changes such support.

2. Internal unity Nationalist Govt, including prospects coup by anti-Communist Nat Govt milit comdrs.
3. Views Nationalist leaders on survival prospects Govt and estimate probability defections to Commies.
4. Effect on General situation (a) establishment Nat Govt Taiwan (b) appointment K. C. Wu governor.
5. Prospects economic stability.
6. Official and public receptivity (a) US milit occupation (b) UN trusteeship.

Queries also being made by other agencies to their reps Taiwan.

ACHESON

894A.20/12-1949 : Telegram

The Secretary of State to the Ambassador in the Philippines (Cowen)

WASHINGTON, December 19, 1949—7 p. m.

1531. Dept has noted press despatch from Manila dated Dec. 12 stating US has informed PhilGov that "it will take positive action to counteract communist threat to Formosa" citing "high source at Malacañan", source adding understood US would send adequate arms to enable Chiang hold Formosa and stating "it is very assuring to us" to know Chiang being given backing Formosa.

Has Emb any information as to source this unfounded assertion and reasons therefor? Suggest ur discretion you inform PhilGov Dept finds such irresponsible statements difficult understand and often embarrassing. While not optimistic this sort of thing can be stopped think it highly desirable again caution PhilGov.

ACHESON

893.00/12-2049 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 20, 1949—3 p. m.

[Received December 20—8:24 a. m.]

857. Provincial political crisis has developed over Wu appointments in new Government. What he calls his "social revolution" for Taiwan is encountering expected difficulties (see mytel No. 858 dated December 20, 1949 for published details).

K. C. Wu tells me privately he cannot make changes now and maintain dignity. Also still believes Chiang Wei-chuan is best representative of people although unpopular with intellectuals and Taiwanese vested interests. Latter have control of PPC. Wu suspects C. C. Huang's group of causing alarming recent rise in black market rate

citing their control local banks and newspapers. Also suspects Chen Cheng of fostering resistance. States lack of time precluded fuller advance negotiations which would have resolved differences.

C. C. Huang tells me he has attempted be mediator in fight. Has high hopes for Wu administration but concurs in dislike of Chiang Wei-chuan, and Ju Peng Teh. To avoid charge of PPC revolt against Nationalist Government, he had PPC pay respectful call on Generalissimo after passing resolution. Generalissimo urged cooperation and continuance of session but members failed reassemble this morning as scheduled. At PPC call on Chen Cheng yesterday, Chen suggested compromise plan including seating of new government and early resignation of objected commissioners. Chen presented this to Wu late last night. Wu's reaction still unknown although morning press suggests general acceptance.

Wu tells me he has received calls by leaders of local laborers, dock workers, et cetera pledging support and expects to win out over vested interests of doubtful probity, intellectuals, and local reactionaries.

Wu has had 2-hour talk with Craig and Tarring on local economic problems and both parties came away well impressed.

EDGAR

893.9111 RR/12-2049 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 20, 1949.

[Received December 20—9:08 a. m.]

858. Local papers December 20 carried following on PPC objection to K. C. Wu's personnel lineup:

Prov. PPC which began 8th general session December 19 decided indefinite recess same day, objection unsatisfactory appointment certain members new Taiwan Province Government. Objection first brought up by Kaohsiung representative Huang Lien-teng who declared:

"Prov. Commission has included traitors and one who collaborated Japanese suppression own fellow countrymen and even betrayed own elder brother to Japanese. Inclusion such elements in government not only renders local administration hopeless but also affects Communist suppression and blackens future of China".

Huang's objection immediately supported by several PPC members including Penghu (Pescadores) representative Hsieh Han-ju who declared

"It is to be regretted (1) Government has carelessly announced list members Prov. Government, (2) did not inform PPC of these ap-

pointments beforehand although Dr. Wu claimed to organize a government of people”.

After 2-hour secret session PPC arrived at following four-point decision: (1) support Governor K. C. Wu but urge Government reconsider appointment several members Prov. Government who do not command confidence of people, (2) request Government consult PPC regarding appointment directors, bureau heads, (3) urge Government complete local self-government in hsien and cities next year as already decided, effect new election Prov. PPC whose term already expired, (4) effect indefinite recess until Government accepts foregoing three points. After meeting PPC called on Generalissimo who expressed hope (1) unity consolidate strength, (2) PPC resume session December 20. He assured Government respect for popular opinions; K. C. Wu subsequently accepted points 2 and 3 and urged PPC reconsider request in order help maintain Government prestige and give [garbled group] chance try [garble]. Governor Chen told reporters last night: Government will effect satisfactory settlement re personnel dispute, Dr. Wu will respect PPC opinions, local self-government will be enforced 1950. He urged “unity for sake general situation”.

In public statement, Wong Chien, Taiwanese Vice Civil Affairs Commissioner concurrently Chairman Taiwan local Self-Government Association (civic organization), avoided direct comment on dispute but said new lineup has broadened base Government. [“]Both Government and people must be careful and place nation before anything else.” Taiwanese members Yu Mi-chien, Li Yu-pang, Yang Chao-chia, Chen Tien-shun reportedly declining appointment. Some others expressed opinion that their acceptance entirely rests with desire of Government. New Civil Affairs Commissioner Chiang Wei-chuan declared will not make any personnel change in his department except in posts of chief secretary, cashier and custodian of official seal. Government changeover will take place December 21 as scheduled despite PPC objection.

Editorials—*Kung Lun Pao* (Young China Party), *Chuan Min Jih Pao* (operated by group government officials Mayor Yu Mi-chien, General Wang Cheng-chang, banker Liu Chi-kuang, etc.) fully supported PPC objection which is “undoubtedly representative popular opinion” and urged government “seek immediate remedy”. First paper said: “Confronting issue is how consolidate people’s good-will and concentrate local talents, which can be attained only by appointing the virtuous capable who command respect of people. In his regard, opinions local population should be valuable to Government”. Both

Chung Hua Jih Pao (Kmt), *Shao Tang Pao* (military Kmt) disapproved PPC recess as "may not be unanimous wish of people".

Worried by possible result of PPC objection, and urged forbearance and mutual toleration for sake of nation. *Chung Yang Jih Pao* (Kmt from Nanking) maintained dispute is "normal phenomenon unavoidable in democratic government". Hoped "will not cause split between people and Government which will seek reasonable means to obtain reasonable compromise".

EDGAR

894A.20/12-2149 : Telegram

The Ambassador in the Philippines (Coven) to the Secretary of State

MANILA, December 21, 1949—3 p. m.

[Received December 21—7 a. m.]

2900. As Department will have surmised, "high Malacañan source" was President Quirino (Deptel 1531, December 19) who, however, asked correspondents not use his name.

President's statements were elicited by question whether officials Chinese Government would be afforded sanctuary if they were forced leave Taiwan. President replied in affirmative but went on point out reasons why he believed they would not have to leave Taiwan. *Times*, *Herald* and *Chronicle* in handling story attributed to "high Philippine Government source" statement that US had lately shipped large quantities military materiel to Formosa but did not go so far as the news story which Department quoted in ref tel saying US had informed Philippine Government "it will take positive action to counteract Communist threat to Formosa", nearest approach latter statement which appeared Manila press was assertion of *Chronicle* that high Government officials declared US shipments war supplies indicate determination of American Government take positive action in warding off onslaught communism in Asia. (Incidentally, local press gave approximately equal play to item with December 13 Washington dateline citing explanatory statements Michael McDermott.⁷²)

American correspondents queried me immediately after their interview with President and I informed that I knew nothing about alleged recent US shipments arms aid to Taiwan. However, Embassy immediately endeavored ascertain Quirino's sources information. We

⁷² At press conference on December 12, a question was raised regarding a story from Manila that the United States was taking positive action to counteract any threats of Formosa falling into Communist hands. Mr. McDermott replied: "I don't know what that is based on. I have contacted the Department people and I am unable to find anybody who has given any such information to anybody in the Philippines". When asked whether the story was true, McDermott replied: "I have nothing to say on Formosa".

found impressions correspondents ranged from those of Boguslav who gathered from President that his source was US Government to those INS correspondent that President cited *New York Herald Tribune* correspondent Dorothy Brandon who allegedly passed through Formosan port some months ago. Our efforts resolve this divergence opinion were unsuccessful but I have strong suspicion based on statements made to Melby⁷³ and myself by Chinese Ambassador Chen Chih-ping that he was President's principal source. President Quirino is prone sound off without checking his facts and to state as fact that which he wishes believe, and I am inclined think his credulity and wishful thinking also were responsible for character statements made during interview in question.

I have recently had occasion warn President about incorrect statements involving US, and I December 20 had meeting with US correspondents requesting them assist keeping incorrect stories involving US to minimum by checking them with me. I shall again raise matter with President Quirino soon as opportunity presents further to impress upon him undesirability his releasing misinformation such as that involved in December 12 story.

Sent Department, repeated Taipei 22, Hong Kong for telCan 63.

COWEN

894A.00/12-2349 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 23, 1949—9 a. m.
[Received December 23—4:22 a. m.]

865. Following in reply to Deptel 572, December 19, 7 p. m.:

1. Present popular support: Nationalist Government has no popular support in Taiwan. General opinion is Government as such no longer exists, power resting with untitled Generalissimo, southeast commander Chen Cheng, secret police. Only small group loyal followers remain.

Communist support believed limited to isolated small groups under flimsy organization. Infiltration from mainland continues, proselytizing is on increase using argument peaceful conversion only alternative to military conquest and chaos, but Taiwanese so far slow to react. Hsieh Hsueh-hung reported now in Taichung.

After 50 years of oppressive occupation Taiwanese are politically inarticulate, unorganized and unpredictable. Only Liao brothers can

⁷³ John F. Melby, Officer in Charge of Philippine Affairs, representing the Department of State for preliminary discussions regarding proposed Mutual Defense Assistance Program with the Philippines.

be called independence leaders and their reliable following in Taiwan most uncertain. They now advocate trusteeship. Other Taiwan "big names" most of whom in new Wu Government equally without solid backing. However, 2-28 revolt⁷⁴ suggests constant possibility of sudden mass support for any movement favoring Taiwanese basic aims of relief from Kmt misgovernment, autonomy or independence.

Continued US aid to unreformed Kmt and supporting armies will delay or preclude Taiwanese self-expression and increase arguments of Communists. General diplomatic recognition of Mao Tse-tung and non-arrival US aid will lead many of all classes fatalistically to Communist side. Announcement of US aid clearly destined for Taiwanese Government combined with US military assistance to selected generals would quickly check local Communist conversion and strengthen Taiwanese Government for resistance. Local government such as Wu's would receive greater Taiwanese and Chinese cooperation.

2. Nationalist Government's internal unity: There is no unity in Nationalist Government now nor has there appeared to have been for some time past. However, Generalissimo through careful balances of power has turned this disunity to his advantage. No general now here is permitted sufficient strength of men plus material to insure successful coup. Probably only outside force promising secure future for participants could cause cooperative action to dislodge Generalissimo, who is government. Private assurances of subsequent continuing US support would weight scales. Only at last hour and on Generalissimo's complete collapse when action could be called patriotic and not traitorous, some general might assume command despite remaining resistance.

3. Survival prospects: It is the general official opinion that survival is impossible without outside aid; resources to maintain military estimated sufficient for 6 to 9 months; with minimum aid such as 75 million President's fund and ECA unused 90 million, another year could be added during time deterioration on mainland should permit comeback.

Taiwanese constantly fear defection Chinese soldiers. If US aid does not arrive soon, increasing defections this quarter can be expected as well as army officers and former government officials seeing no alternative.

4 (a). Effect National Government in Taiwan: Taiwanese reacted unfavorably to establishment of National Government in Taiwan, saying move makes island necessary objective of Communists particularly if military harassing of mainland from Taiwan bases continues. Also object to financial and food drain on Taiwan economy

⁷⁴ See *Foreign Relations*, 1947, vol. VII, pp. 423 ff.

of military located here in numbers excessive for defense of island and justifiable only as return of unpopular Generalissimo and Kmt to mainland. Scattered charges US should object on basis Taiwan legal status and Cairo [Declaration?].

(b). Effect Wu appointment: Immediate result of Wu appointment is political confusion. Established elements and vested interests naturally fear and voice objection his "social revolution" selections of commissioners. His efforts to placate Taiwanese common people can be sabotaged, the chances of which increase with further delay of US economic aid. ECA and US technical advisers believe Wu more understanding of and receptive to industrial integration, foreign trade simplification, modern economic rehabilitation than Chen Cheng. Unless sabotage efforts including currency black market flights and soldier disorders discredit him, personally believe he can obtain more general support than Chen Cheng had and accomplish more. However, many now differ this opinion.

5. Economic prospects: Unless unbridled military demands now being made upon its economy are curbed, Taiwan will go bankrupt within 6 to 9 months. Thus far indications are that current demand will be increased rather than curbed. In view of traditional Chinese military disregard of civil authority and advice, I believe that only strong direct pressure from outside would force military to pare their demands on Taiwan Treasury to point where they would not wreck the local economy, for such step would mean abandoning at least temporarily any thought of retaking mainland and require scaling military force down to size just sufficient defend island. Disposition of rapidly discharged soldiers would present problem. While provincial government has succeeded in keeping its own civil budget balanced, its revenue is just sufficient for that purpose (see mytel 816, December 13⁷⁵), thus no part of current expenditures for military purposes, which in November were seven times civil budgetary expenditures, have been met by revenue. This military bill has so far been paid without serious inflationary effects by drawing on reserves. When reserves are exhausted there will be nothing to fill the tremendous gap between anticipated revenue and combined civil and military expenditures for Nationalist Government revenue from local customs, salt tax, et cetera, just sufficient its civil needs.

But even should military demands on the economy be scaled down to proportions which the island's economy theoretically support on the basis of its present agricultural and industrial capacity to produce, the economy in its present state could not actually be expected to sustain them unless current assistance is increased or substantial amounts

⁷⁵ Not printed.

of private capital induced to flow into industry. Many of Taiwan's key industries are now in doldrums due primarily to their inability to adjust to loss of mainland markets and source of supply. In order to compete in new (foreign) markets or be able to afford to buy supplies abroad these industries must increase efficiency so as reduce costs and improve products. This takes capital. The ability of provincial government to provide capital from its reserves is not only limited but is being rapidly reduced by the military drain. Thus unless ECA fills the gap the burden must fall on private capital. While it is believed that there is substantial private capital available to Chinese now on the island, such capital is not being invested in industry where it is vitally needed because of uncertainty of Taiwan political future. Furthermore, confidence in the ability of the Chinese to secure Taiwan against communism without outside help is so low that it is highly doubtful that any Chinese administration alone, no matter how reformed, could inspire the confidence of private capitalists sufficient to encourage them to invest the capital needed. Element of confidence can only be supplied by display of American support.

The economy of Taiwan is basically sound and it possesses the necessary physical elements to make it self-sustaining under normal conditions of peace and security. But only after military demands are directly related to the ability of the economy to pay and the confidence of the people in the island's security is restored can these elements be so coordinated as to make the economy a going concern. Given these conditions the amount of material aid actually needed to put Taiwan on its feet would be relatively small.

6 (a). US military occupation: Generalissimo, generals and topmost officials could be expected to require face-saving formula with emphasis on support for eventual victorious return to mainland before accepting US military occupation. An unnegotiated occupation could expect some initial Chinese military opposition. However, US military control through advisors with authority is entirely feasible at this point and has been suggested by Chinese officials. Many highest Chinese officials have repeatedly requested maximum US military cooperation, even suggesting military condominium.

Over million Chinese civilians here look hopefully to temporary US take-over to save selves and what they have salvaged from mainland.

Mass of Taiwanese hate Kmt, fear Communists and would welcome US military occupation. For months past there have been recurring hopeful popular rumors that SCAP would take over, as relief from Kmt and step toward independence. More realistic ones have suggested

Chinese armies and civil administration here be placed under SCAP supervisory control as deterrent to Communist attack. Expected Chinese military and official cooperation would eliminate need large bodies US soldiers.

(b). Trusteeship: Trusteeship idea is held by most Taiwanese as alternative to US or SCAP intervention. [Garbled group] independence group has recently admitted impossibility immediate independence and made alignment with trusteeship group as interim necessity. Self-concerned mainlanders here could be expected to accept trusteeship.

Opposition would, most naturally, come from Nationalist officials who would see in move loss of Nationalist face and probable event loss of Taiwan to Chinese. US military and economic controlling participation in local problems would be more palatable and is generally desired. In present desperation, Chinese officials would accept any proposed formula.

EDGAR

893.503194A/12-2349: Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 23, 1949—11 a. m.

[Received December 23—1:39 a. m.]

868. During my courtesy call on new Governor yesterday, Wu told me he has sent Jen⁷⁶ to Hong Kong to try to interest Wu's Shanghai friends to invest their capital estimated at 300 million US in Taiwan. With industry revived and employment opening up he can start government employee reduction but not before.

I strongly urge that ECA funds be released to start this ball rolling. Best impetus would, of course, be US declaration of interest in island.

Wu is considering appointment Shanghai judge now in Taiwan University as Supreme Court Judge to reorganize courts.

Mayor Yu still declining participate new government, reportedly wanting Education Minister or nothing. Others appear to have buried prejudices and will at least try new game.

Hsu Pin declined offered post on grounds age but selected younger substitute Chen Ching-fen.

EDGAR

⁷⁶ Jen Hsien-chuen, new Finance Commissioner of Taiwan.

894A.00/12-2349

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 23, 1949.

Attached is a transcript,⁷⁷ obtained from Mr. McDermott's office, of a statement made by the President to the press on December 22, 1949 in which he said: Formosa is a part of Nationalist China and we still recognize the Nationalist Government as the government of China. The Counselor of the British Embassy called this morning to ask for an interpretation of the meaning of this statement. We are informing him that the President is in Missouri and that we do not know exactly what the President had in mind.

894A.00/12-2349

Memorandum of Conversation, by the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] December 23, 1949.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. W. Walton Butterworth, Assistant Secretary, FE
Mr. Livingston T. Merchant, Deputy Assistant Secretary, FE

The Chinese Ambassador called at his request this afternoon and left with me for transmission to the Secretary the attached communication concerning Formosa.⁷⁸ He then briefly recapitulated the steps recently taken by his Government with respect to Formosa, including the appointment of K. C. Wu as Governor, the inclusion as a majority of Formosans among the heads of the provisional departments and the introduction of certain land tax reforms.

I accepted the communication and stated that without benefit of having read it and without prejudice to its consideration, I wished to make clear our view that the economic resources on Formosa were so rich, the stocks of arms so large and the collection of administrative talent so impressive that the Island could be developed with tranquility and prosperity to a state where a comparison of conditions there with those existing on the Mainland would have a powerful influence on the Chinese under Communist rule in China proper. I said that I had a very high opinion of K. C. Wu's administrative genius but that the test would be the extent of the powers granted him and

⁷⁷ Not printed.

⁷⁸ *Infra.*

I went on to cite his difficulties when Mayor of Shanghai which arose from his lack of control of the military and made mention of my fear that the same situation might exist on Formosa. I then referred to the apparent confused lines of authority among the various military commanders. Finally, I stated that we were concerned by evidence from time to time that the Chinese authorities on Formosa were thinking in terms of making certain arrangements or instituting reforms because they thought the United States desired them. I emphasized that we had no such desire to impress our will and that such affairs were exclusively a Chinese responsibility. I concluded by reminding him that we had no intention of using American troops to defend the Island.

The Ambassador elaborated on his earlier remarks and emphasized the degree of autonomy which K. C. Wu and General Sun Li-jen as Commander of the defenses of the Island possess.

I then asked the Ambassador if as a matter of military policy it was intended that the Island was to be utilized as a base for military operations against the Mainland or devoted to the defense of the Island and the well-being of its inhabitants. The Ambassador replied that the Island's own resources were sufficient for its own support and defense but that the thought underlying the request for aid contained in the communication he was leaving was based on the intention of developing the Island to carry the war to the Mainland. The Ambassador then said that the details of the economic aid which his Government requested had already been communicated to ECA and that he would be glad to supply us next week with the details of military aid which was being requested.

I thanked the Ambassador and assured him that his Government's communication would receive our urgent attention and I reminded him that Formosa had been the subject of intensive attention by the United States Government since the days of Chen Yi.⁷⁹

894A.00/12-2349

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, December 23, 1949.

DEAR MR. SECRETARY: I am directed by my Government to present to you the following Memorandum.

My Government hopes that you will be good enough to give it early consideration and lay it before the President for decision.

⁷⁹ First postwar Governor of Formosa.

"On November 3, 1949, Mr. John J. Macdonald, United States Consul-General at Taipeh, Taiwan (Formosa), called on Generalissimo Chiang Kai-shek and, pursuant to instructions of the Secretary of State, presented to him a Memorandum expressing the concern of the United States Government over the situation in Taiwan. The Generalissimo duly communicated the contents of the Memorandum to the National Government and the Provincial Government of Taiwan. General Chen Cheng, Governor of Taiwan, in response to similar representations made to him on November 4, 1949, by Mr. Macdonald, sent him a written statement for the information of the Department of State regarding the military and political situation of Taiwan.

"After careful consideration of the United States Memorandum the National Government wishes to declare solemnly to the United States Government that it will spare no effort to preserve Taiwan as a central base of operations against Communist aggression and that it will urge the Provincial Government of Taiwan, following the principle of full cooperation between the provincial authorities and the people, to exert its utmost efforts for the political and economic progress of the Province in order that the people of the island may enjoy a democratic and stable life, thereby establishing a marked contrast to the enslavement and miserable conditions obtaining in the Communist-controlled areas on the mainland and thus serving to strengthen the will of the Chinese people in opposing Communism.

"To attain the above-mentioned objectives, the Chinese Government will make the utmost effort on its own part to overcome the great difficulties with which it is confronted in the present situation; but it earnestly hopes at the same time that the United States Government will have a sympathetic understanding of these difficulties and will help it to resolve them. For the defense of Taiwan from Communist domination will have a very important bearing upon the general defense strategy of the democratic and free nations in combating Communist aggression in the whole Pacific area.

"If the United States Government could see its way to approve China's request for technical and material assistance as proposed below, the Chinese Government will not, on account of such aid, neglect its own responsibilities or relax in any degree its own efforts. The Chinese Government believes that the following requests for aid are well within the limits of the existing legislations of the United States providing aid to China.

"I. Technical assistance:

"A. The Chinese Government wishes to procure the services of 30-40 officers for each of the three branches (military, naval and air) of its defense establishment. The officers are expected to assist in the planning of the three defense services of China and in the work of supply, administration and training of the armed forces. The proposed number of officers should include five to seven marine officers who will assist in the training of Chinese forces for amphibious operations. These officers may be selected by the United States Government for appointment from among American officers in active service or in retirement. If the United States Government desires that these officers should not be asked to participate in first-line combat duties, the Chinese Govern-

ment will respect this desire and will not ask them to undertake any such work.

"B. The Chinese Government also desires to engage 20-30 American political and economic experts to assist the authorities of the Taiwan Provincial Government in planning and carrying out projects in the fields of industry, finance, commerce and trade, agriculture and public administration, and in ensuring the effective use of any aid granted.

"The above-mentioned officers and specialists will be employed by the Chinese Government on a voluntary and contractual basis and their remunerations will be paid by the Chinese Government. It is hoped, however, that some arrangements may be made for defraying their remunerations out of the funds provided for under the existing legislations on United States aid to China.

"II. *Material assistance:*

"A. *Of a military kind:*

"(1) Military supplies and equipment for at least six "M" divisions.

"(2) About 16 naval craft of categories suitable for patrol duties, and fuel and oil for such craft and other vessels of the Chinese Navy.

"(3) Necessary spare parts, certain repair shop equipment, and aviation gasoline for the Air Force.

"(4) Equipment for Signal Corps, spare parts and repair shop supplies for Tank Corps, and a small number of field radar stations.

"B. *Of an economic kind:*

"(1) The Chinese Government hopes that the United States Government will take steps to bring about an extension of Section 12 of Public Law 47 (81st Congress),⁸⁰ so that the existing balance of the fund for aid to China under the Act may be fully utilized until the end of 1950, and that two-thirds of such balance, approximately \$60,000,000, may be spent in Taiwan for the following purposes:

- (a) Purchase of commodities;
- (b) Industrial reconstruction;
- (c) Agricultural rehabilitation; and
- (d) Stabilization of currency.

"With reference to the foregoing proposals, the Chinese Government has consulted Generalissimo Chiang Kai-shek for his views. The Generalissimo, in view of the urgency of the situation in Taiwan, also earnestly hopes that the President of the United States and the Secretary of State will see their way to give full consideration to the proposals as promptly as possible.

"The Chinese Government wishes to add that, although the foregoing proposals have been prepared on the basis of the particular needs of Taiwan alone and although the difficulties in the other combat areas are exceedingly great, it will continue to exert itself to maintain these areas. The security of Hainan Island, especially, is of strategic importance as an auxiliary base of operations to supply the Government forces in the south-western Provinces of China now still resisting the Communist advance. The Chinese Government therefore earnestly

⁸⁰ Approved April 19, 1949; 63 Stat. 50, 55.

hopes that the United States Government will also give the necessary aid in order more effectively to defend the said Island."

I remain [etc.]

V. K. WELLINGTON KOO

[For a Department document entitled "Policy Information Paper—Formosa", "Special guidance No. 28, December 23, 1949", prepared by the Public Affairs Area, Policy Advisory Staff, and circulated to posts in the Far East, see *Military Situation in the Far East*, Hearings before the Committee on Armed Services and the Committee on Foreign Relations, United States Senate, 82d Congress, 1st session (Washington, Government Printing Office, 1951), part 3, pages 1667–1669. For testimony by Secretary of State Dean Acheson in June 1951 in regard to this document, see *ibid.*, pages 1663–1711.]

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 37/9

[WASHINGTON,] December 27, 1949.

POSSIBLE UNITED STATES MILITARY ACTION TOWARD TAIWAN NOT
INVOLVING MAJOR MILITARY FORCES

At the request of the Secretary of Defense, the enclosed views of the Joint Chiefs of Staff on the subject are circulated herewith for the information of the National Security Council and for the use of the Council in its discussion of "The Position of the United States with Respect to Asia" (NSC 48/1⁸¹) at the meeting scheduled for Thursday, December 29, 1949.

SIDNEY W. SOUERS

[Annex]

*Memorandum by the Joint Chiefs of Staff to the Secretary of
Defense (Johnson)*

WASHINGTON, 23 December 1949.

Subject: Possible United States Military Action Toward Taiwan not
Involving Major Military Forces

The Joint Chiefs of Staff have assessed the military measures, short of the dispatch of a major military force, which might be undertaken

⁸¹ Text in United States Department of Defense, *United States-Vietnam Relations, 1945–1967*, 12 volumes (Washington, Government Printing Office, 1971), vol. 8, p. 225.

with respect to Taiwan in furtherance of United States political, economic and psychological measures now under way.

The following are the major conclusions arrived at as result of their study:

a. A modest, well-directed, and closely-supervised program of military aid to the anti-communist government in Taiwan would be in the security interest of the United States; and

b. A modest program of military aid to the Chinese Government in Taiwan should be integrated with a stepped-up political, economic, and psychological program pursued energetically in extension of present United States programs there.

The Joint Chiefs of Staff will, subject to your concurrence:

a. Direct the Commander in Chief, Far East, with the assistance of the Commander, 7th Task Fleet, to make an immediate survey of the nature and extent of the military assistance required in Formosa in order to hold Formosa against attack; and

b. Based on the results of the survey, make recommendations to you as to the military program.

The Joint Chiefs of Staff desire to point out that the recommended action with respect to Formosa is a part of the overall problem of resisting the spread of Communist domination in East Asia. It is recognized that this is a piecemeal approach, as is their recommendation with respect to assistance to Indonesia forwarded to you on 22 December 1949,⁸² but it is likewise a matter of urgency. These separate but related projects point up the necessity of early determination of an overall program for the solution of the major problem.

For the Joint Chiefs of Staff:

OMAR N. BRADLEY
Chairman
Joint Chiefs of Staff

894A.00/12-2849

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 28, 1949.

The latest Joint Chiefs of Staff recommendation with regard to Formosa⁸³ is understood to call for stepped-up economic and diplomatic aid and, even more important, military advisers and the gift of military equipment and supplies. It parallels with extraordinary

⁸² Not printed.

⁸³ *Supra.*

loyalty the request for increased assistance from the Chinese National Government received on the same date.⁸⁴

Dealing with the first two and the least contentious points first, there is in the view of both the Department and ECA comparatively little in the way of an increased economic aid program which could be established beyond that now in existence that would not either assume unjustified responsibility for the entire imports of the Island, thereby reducing the incentive to export, or embark on an industrial and capital goods program which would aggravate the inflation and would not result in any immediate near term increase in the Island's productivity. In summary FE would not favor as practical a program running appreciably in excess of the contemplated \$25 to \$30 million ECA estimate of expenditures for the next eighteen months. If Congress extends existing legislation there are ample appropriated funds for this.

It is difficult to see how we could increase our diplomatic support. We have moved our Embassy to Taipei⁸⁵ and it remains under the Chargé d'Affaires who has represented this Government since last August. Possibly the JCS are considering the appointment of a new Ambassador from the U.S. This would not appear justified coming at a time when the holdings of the Government have shrunk to two islands and other major powers are in the act of recognizing the Communist regime.

With respect to the provision of military advisers, although proposed in different form, this seems to FE in essence to constitute the re-establishment of JUSMAG which was closed out eleven months ago as a sober considered decision. Essentially this proposal flies in the face of all our past experience from Stilwell to Barr. It is the old question of responsibility without authority and it is the even older question of an attempt by the Chinese to involve us directly in the civil war and to capitalize on our military as special pleaders for increased aid.

Before embarking on this new venture it is reasonable to ask what are the chances of success. This proposal flies in the face of the Joint Intelligence estimate quoted in the body of NSC 48/1⁸⁶ and in effect runs counter to the entire analysis and discussion contained in this paper. It can be presumed, therefore, that the chance of permanently or indefinitely denying Formosa by the use of this device is slim.

What then would be the consequences of failure? Essentially U.S. prestige, if not U.S. military forces, would be nailed firmly to the

⁸⁴ *Ante*, p. 457.

⁸⁵ See telegram Cantel No. 1343, December 27, 1 p. m., from the Chargé in China, vol. VIII, "Successive moves of the Embassy office in China . . .".

⁸⁶ See *United States-Vietnam Relations*, vol. 8, p. 245.

mast of a discredited regime to the dismay of our friends in Asia and to the delight of the Communists who could unite all Mainland China on the issue of U.S. military intervention. It would cancel all our efforts to disengage from the hopeless affiliation and regain our initiative. It would obscure the fact that the failure was a Chinese one despite their possession of resources adequate for their own defenses. It would moreover encourage and enable the Nationalists to carry the war by air and sea to the Mainland and thereby almost inevitably lead to frictions and complications with the British and other friendly powers who will recognize the Communist regime without holding out any real possibility of a re-conquest of China itself.

The British attitude on aid to Formosa is clear. They are justifiably concerned over the possibility of an increased military threat to Hong Kong if Formosa and its military dumps fall into Communist hands.

The sincerity of the Generalissimo in the pledges he is now offering can be judged by K. C. Wu's statement that he is being given one month in which to obtain increased American aid. It should also be noted that last June and again last November in response to Chinese suggestions that we supply military advisers we informed the Chinese that we had no objection to their employment of former U.S. Army and Naval officers provided they were employed directly by the Chinese Government. The Chinese have shown no interest in such an arrangement.

894A.20/12-2949

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 29, 1949.

Participants: General Omar N. Bradley
 General J. Lawton Collins
 Lt. General Lauris Norstad
 Admiral Forrest Sherman
 The Secretary
 Dean Rusk, Deputy Under Secretary
 W. Walton Butterworth, Assistant Secretary, FE
 Livingston T. Merchant, Deputy Assistant Secretary,
 FE

The Joint Chiefs of Staff met with me this morning in my office at my request for the purpose of obtaining clarification of their memorandum of December 23⁸⁷ submitted to the National Security Council.

In reply to General Bradley's opening statement to the effect that he assumed I desired them to discuss their strategic concept in the Far

⁸⁷ *Ante*, p. 460.

East, I replied that I was specifically interested in ascertaining exactly what is the strategic importance of Formosa. I stated that my understanding of their past pronouncements on the subject was that the strategic importance of Formosa was insufficient to warrant the use of United States armed forces; that the Department of State had been doing its best to execute the existing policies laid down by the National Security Council with respect to Formosa; and that we had reported to the Council last summer that we foresaw the probability of ultimate failure. The Joint Chiefs' most recent memorandum, however, I said, appeared to give a different view or weight to the matter.

General Bradley denied that there had been any change in the position of the Joint Chiefs. He recapitulated their past statements, pointing out that they had always considered Formosa important and mentioning that their recommendation last February to base minor U.S. Naval units on Formosa had been overruled by the National Security Council. He added that a study made by the Joint Chiefs in October arrived at the conclusion that military assistance to the Nationalist Government was desirable but that since no funds were then available for the purpose, the matter was not pressed. The December 23 recommendation, General Bradley continued, was based on the existence of funds under Section 303 of the Military Assistance Act⁸⁸ and on the estimate that in the recent past the situation had changed on Formosa. In this connection, he pointed out that Chinese Air Force units have been brought to the Island in force, that the families of officers had been moved from the Mainland to the Island with resultant lessened risk of individual defections and that it was evident that the Chinese Air Force, ground force and Navy were in need of gasoline, bombs, ammunition and certain maintenance parts. General Bradley then asked Admiral Sherman if he had adequately covered the Joint Chiefs' position, which the Admiral agreed had been done but added that in the recent past K. C. Wu had been installed as Governor. General Bradley concluded by stating that they believed a survey team should now assess the needs of the Chinese since money was available to meet those needs. General Collins interjected that the Intelligence Estimate of October 19 was going to be changed and added that the Joint Chiefs' views were that by comparatively small expenditures Formosa might be placed in a position where it would hold out longer than otherwise, with a consequent significant effect on the ability of the Chinese Communists to consolidate their regime.

In response to Mr. Butterworth's question, General Collins elaborated on the underlying reasoning of the Joint Chiefs. He referred to the importance of preventing an extension of Communist domination

⁸⁸ Approved October 6, 1949; 63 Stat. 714, 716.

to Indochina, Burma and Siam, agreeing that the risk was one of infiltration and subversion rather than invasion by armed forces from China. He emphasized the importance of maintaining Formosa for its diversionary value, expressing the belief that Chinese Communist expansion to the south might be deflected so long as they had Formosa to contend with or subdue.

Mr. Rusk and Mr. Butterworth questioned whether there was not an element of pre-judgment in the JCS paper in that it stated that it was in our security interests to give military aid to Formosa and then suggested sending a team in to ascertain what the need was. They were also asked whether the Joint Chiefs visualized such aid as a Government-to-Government transaction and whether it was their intention to establish a new JUSMAG or merely to permit the Chinese to employ ex-military men as advisers.

It developed from these and other questions that there was no intention to send combat troops into Formosa, that it would be up to the State Department as to the mechanics on which the aid would be made available and that, if anything, the Joint Chiefs had a preference for ex-officers being employed by the Chinese as advisers. During the course of this phase of the discussion, General MacArthur was stated to feel very keenly the importance of preventing the early fall of Formosa, but that he did not recommend sending U.S. troops in.

At this point I stated that I would like to explain the background against which I viewed the problem of Formosa and to ascertain whether we were discussing the best methods of checking Communism in Asia or the degree of essentiality of Formosa to the defense of the United States. I pointed out that the Communists now in fact control China and that the conquest has not primarily been by force but due to the collapse of the Kuomintang and the existence of a long-smoldering agrarian revolution on which the Communists have capitalized. We must face the fact that there is no Chinese basis of resistance to Communism. We must also face the certainty that throughout Southeast Asia the Communists will seek to extend their domination, probably by subversive methods and not invasion. We must do our utmost to strengthen the neighbors of China. What we have to do is build up their internal stability, help them to produce more food and raise even moderately their standard of living. Above all we must get ourselves on the side of Nationalist movements, a task which is easier now that the dead hand of European colonialism has been removed. We must help these young countries to organize and assist them by Point IV⁸⁹ and other demonstrations of our ability and willingness to help them. More-

⁸⁹ See President Truman's inaugural address on January 20, 1949, Department of State *Bulletin*, January 30, 1949, pp. 123-126.

over, I said we must accept as fact that the Chinese Communists are Marxists who regard the Soviet Union as their great and only friend. In all this we must take the long view not of 6 or 12 months but of 6 or 12 years. I said that in the Soviet effort to detach the northern tier of provinces in China exists the seed of inevitable conflict between China and the Soviet Union. Mao is not a true satellite in that he came to power by his own efforts and was not installed in office by the Soviet Army. This situation, I pointed out, is our one important asset in China and it would have to be for a very important strategic purpose that we would take an action which would substitute ourselves for the Soviets as the imperialist menace to China. For these reasons we oppose waging economic warfare against China. Of course we can't let them have strategic materials but we must not provide them with a basis for propaganda to the effect that by our actions we are responsible for creating the economic difficulties which the Chinese people are bound to undergo under the Communists, nor must we overlook the fact that Japan, whose natural trade is with China, cannot remain forever a pensioner of the American taxpayer. We are in a position resembling that in which Russia found herself in 1927 when she was driven from China and her influence liquidated. It has taken her 22 years to return to a position of dominant influence and it may similarly take us as long.

I continued that it is against this backdrop that the Department of State looks at Formosa. We ask ourselves is the risk of its falling due to assault—that seems unlikely. The real danger is the continued decay within. With a hostile population, overrun by refugees, a corrupt government, even though K. C. Wu has been brought forward as scenery, it seems likely we will see a continuation of the process which lost the Mainland.

Assuming that by following the course recommended by the Joint Chiefs we can postpone the fall of Formosa for a year, we must ask what price do we pay for this delay. I believe that, first, we will have once more involved U.S. prestige in another failure for all to see; moreover, and of greater importance, we will excite and bring upon ourselves the united Chinese hatred of foreigners. We risk giving the Soviets a chance of bringing us before the Security Council and throughout all Asia we would be represented as the supporters of this discredited, decayed Kmt Government. If at this price we acquire an island essential to the defenses of the United States then it might be worth the price but there does not appear to be demonstrated a claim that the loss of Formosa really breaches our defense.

General Bradley replied that my reasoning was political and the Joint Chiefs were only giving the military view, while recognizing that political considerations often must override military considera-

tions. He added that he inferred that I had decided it was better to let Formosa go for political reasons. I agreed that unless the Joint Chiefs could offer strategic reasons beyond those adduced, I was inclined to regard the political price as too high to pay for the purchase of some additional time. In response to General Bradley's latter question, however, I stated that from this it did not follow that we should let Formosa go and then recognize the Communist Government.

There followed some discussion on the seriousness of both the military supplies on the Island and the Nationalist gold falling into the Communist hands and, in this connection, I pointed out the British concern over this former risk. The possible covert support of guerrilla activities on the Mainland came up and it was indicated to the Joint Chiefs that we did not feel there was present basis for such support, General Collins having made the point that if such support were intended Formosa had a further usefulness as a base and headquarters.

In response to a question by Mr. Rusk concerning the relative strategic importance of Korea from which we had militarily pulled out and Formosa, General Collins admitted that the former was more important as a base for attack against Japan and that there was little difference in terms of exposure of Okinawa between hostile air bases on the China Mainland and on Formosa. Admiral Sherman pointed out that the value of an island rests on the fact that being surrounded by water it is more easily defended. He also suggested that if Formosa is doomed we should plan some preventive action to avoid the planes and other military equipment on the Island falling into Communist hands in useful condition.

As the meeting concluded, General Bradley reiterated that the Joint Chiefs were presenting a purely military point of view which reflected the fact that Congress had appropriated money to support these people who were resisting Communism and that he recognized that political considerations might override their views.

894A.00/12-3049

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sproue)

[WASHINGTON,] December 30, 1949.

Mr. Ford ⁹⁰ called at his request this afternoon and said that he and Mr. Graves felt it inevitable that the Foreign Office would request the Embassy to inquire of the Department regarding the story appearing in the American press regarding the JCS recommendation for U.S.

⁹⁰ J. F. Ford, First Secretary of the British Embassy.

military advisers and assistance for Formosa. He asked whether there was any information that I could give him at this time to enable them to give the Foreign Office some indication of the Department's attitude on this question. Emphasizing that what I was telling him was solely for the confidential information of the Foreign Office, I said that the Joint Chiefs of Staff had proposed a program of military assistance, including military advisers, for Formosa but that no decision had been reached in this regard. I told him that there was nothing I could say at this time beyond the foregoing.

711.94A/12-3049 : Telegram

The Secretary of State to the Consul at Taipei (Edgar)

WASHINGTON, December 30, 1949—7 p. m.

597. [For] Krentz.⁹¹ For ur secret info Natl Security Council Dec 29 reconfirmed existing top policy re Formosa contrary to JCS Dec 23 recommendation that mil aid program to Nats be instituted following report on specific needs which would be made by SCAP-Seventh Task Force Survey Mission. Any prelim comments reports on general situation possible for you cable now will be welcomed. Send eyes only Butterworth.

ACHESON

894A.24/12-3049

The Counselor of the British Embassy (Graves) to the Director of the Office of Chinese Affairs (Sprouse)

777/46/49

WASHINGTON, 30 December 1949.

DEAR PHIL: I mentioned to you on the telephone on the 23rd December that I would give you the full story about the thirty demilitarised Sherman tanks which, you pointed out to me, had been shipped from the United Kingdom direct to Formosa. As you were able to note at the time the information took me by surprise. The explanation is, in the language of the message from the Foreign Office, as follows:—

“The position is that in March of this year various departments of His Majesty's Government were approached by an applicant who wished to sell 100 demilitarised Sherman tanks to the Chinese Nationalist Government. When the necessary permission was refused the applicant asked if the tanks could be shipped to the United States.

⁹¹ Kenneth C. Krentz, former Consul General at Taipei, was now a member of the Policy Planning Staff.

He made no effort to conceal the fact that the intention would be to endeavour to arrange for their onward shipment from the United States to Formosa. The usual procedure for the shipment of military equipment to the United States is that Export Licences are granted provided that copies of the necessary United States Import Licences are produced. After consultation with the United States Embassy, who gave us to understand that it was very unlikely that United States Import Licences would in fact be forthcoming, the Foreign Office advised the departments directly concerned that there seemed no reason to vary the usual procedure in this case.

We heard recently from Formosa that tanks destined for Formosa were said to be awaiting shipping in the United Kingdom. On investigating the position we ascertained that United States Import Licences had in fact been granted, and that United Kingdom Export Licences for shipment "to Formosa via the United States" had also been granted. We at once arranged for all outstanding licences to be cancelled.

It is unfortunately true however that 30 tanks had already been shipped on the S.S. "Ocean Side" which sailed on October 20th. On receipt of your telegram under reference we enquired into the movements of this ship and ascertained that she did not in fact go to a United States port but proceeded to the Far East via Suez. Although she was scheduled to make no stop between Aden and Kobe, she is understood to have called at Koshun in South Formosa on December 12th. We learn that it was originally intended to have the tanks re-conditioned and re-equipped in the United States and they must therefore have reached Formosa in their present demilitarised condition.

We are looking further into the question whether any breach of the regulations has been committed, but in the meantime you will no doubt wish to explain the position to the State Department."

2. You will note that the tanks were in a demilitarised condition when they arrived in Formosa.

3. Immediately on receipt of this message we telegraphed to ask whether we could give you an assurance that steps had already been taken to see that the remaining 55 tanks should not leave the United Kingdom for direct or indirect shipment to Formosa. We have had a reply to the effect that this assurance can be given.

4. Now that this particular episode has been presented may we get back to the choric song—that is, the memorandum I left on the 6th December? I have of course passed on the list of light armoured vehicles and outstanding aeroplane procurements which you gave me on the 21st December but if you could let us know what your attitude is to our suggestion that the flow of arms might be stopped or restricted I should be very grateful.

Yours sincerely,

HUBERT GRAVES

893.00/12-3049

The Governor of Taiwan (Wu) to the Director of the Office of Chinese Affairs (Sprouse)

TAIPEH, December 30, 1949.

DEAR MR. SPROUSE: I am writing you this letter in the belief that as head of the Division of Chinese Affairs of the State Department you will be deeply interested in the present situation in Free China and the steps we are taking to solve the problems confronting us on this island. In assuming my new duties as Governor of Taiwan I am well aware that whatever reforms we undertake must aim at the achievement of a most important twofold object: that is, political and economic stability. In order to achieve political stability we have decided to give the Taiwanese a greater voice in the provincial administration. The recent reorganization of the Provincial Government has resulted in the inclusion of seventeen Taiwanese leaders among its twenty-three Commissioners, while out of the five Departmental Commissioners no less than three are Taiwanese. My attempt to bring the various Taiwanese groups together into a united front has proved successful and I have been greatly encouraged by their readiness to give whole-hearted support to both the National Government and the Provincial Government in our anti-Communist struggle.

I also wish to mention here in passing that great stress is placed by us on respect for freedom of the press, which has been the consistent policy of the National Government since the termination of the war with Japan.

In the meantime, we are taking positive measures for bringing about economic reforms. Trade with our neighbors in the Far East and with other parts of Free China is being facilitated by removing all barriers. Free enterprise is being encouraged as far as possible. In addition, we are taking active steps to reform the land system in Taiwan in order to improve the livelihood of the people. All these measures, I believe, will not fail to help us achieve economic stability.

Notwithstanding the reverses we have suffered on the mainland, I firmly believe we still have a bright future if the reforms we are undertaking are pushed with vigor and determination. The success of our own efforts, of course, is doubly assured in view of the generous support your great country is ready to accord to us. With the constant encouragement and increasing aid of the United States, which we shall gratefully utilize to the fullest extent, we cannot fail to accomplish our task of checking Communist expansion and eventually recovering all the territory lost to the enemy.

In giving you this brief outline of the reforms we are trying to carry out in our administration of this island I venture to hope that you

will be kind enough to favor me with your friendly advice whenever time permits.

With warm personal regards and best wishes for a Happy New Year.

Yours most sincerely,

K. C. WU

893.002/12-3149 : Telegram

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

TAIPEI, December 31, 1949—3 p. m.
[Received December 31—4:05 a. m.]

Cantel 1349. Appears to be good possibility that Generalissimo's effort assuage US will result in ouster of Yen Hsi-shan and appointment of Chang Chun⁹² as Premier.

At lunch December 29 K. C. Wu invited Chang as only guest with Krentz, Edgar and myself and took great pains to point out that, although some people might be unaware of it, Chang was a real liberal. Wu also referred to Chang as his former boss and friend.

Secretary to Yen on December 30 himself volunteered possibility Yen resignation in favor Chang.

If appointed, Chang will complete the triumvirate of American favorites together with Sun Li-jen as Defense Commander of Taiwan and Wu as Governor.⁹³

STRONG

⁹² Chinese Minister without Portfolio and former President of the Executive Yuan.

⁹³ Marshal Yen and General Chang both became Senior Advisers to President Chiang Kai-shek in March 1950, while General Chen Cheng became President of the Executive Yuan.

UNITED STATES MILITARY ASSISTANCE TO CHINA:¹
POLICY DECISIONS RESPECTING FURTHER MILITARY
AID TO CHINA

893.24/12-2848: Telegram

*The Acting Secretary of State to the Ambassador in the United
Kingdom (Douglas)*

WASHINGTON, December 28, 1948—noon.

4777. Chi Emb approached Dept re tanks Commerce International Corp attempting purchase from British. Chinese aware US policy contemplates retention in UK and Europe usable military equipment now there (Deptel 4610 Dec 10²) but state tanks in question earmarked scrapping if not sold them. Dept prepared inform Chinese shipment military materiel usable or not from UK and WE³ undesirable view effect publicity such transfer might have on foreign military assistance programs.

Dept however interested knowing whether tanks earmarked for scrapping or for WE programs.

LOVETT

893.24/1-549

*Memorandum of Conversation, by the Chief of the Munitions Division
(Cummins)*

[WASHINGTON,] January 5, 1949.

I called Mr. McAfee of CA⁴ to check with him on the latest developments as far as he knew relative to the tanks in Great Britain which the Chinese Government wish to acquire through Commerce International Corporation.

Mr. McAfee informed me that the Division of Chinese Affairs was beginning to feel that they would not press or endorse the sending of these tanks to China. They question (1) the need for the tanks, (2) the time element involved in obtaining them, and (3) that the Chinese

¹ Continued from *Foreign Relations*, 1948, vol. VIII, pp. 1-296.

² Not printed.

³ Western Europe.

⁴ William McAfee of the Division of Chinese Affairs.

had recently received a sizeable quantity of tanks from areas in the Pacific (Honolulu and Guam). He said that the matter was going to be given full consideration within the next day or two in CA and would let me know their opinion. He felt that CA might agree with Eur⁵ that the tanks should not be released to the Chinese because of the unfavorable publicity that would emanate from such a transaction.

Eur's position is that if our own people, through the press or otherwise, and some of the European countries, found that we were permitting the transfer to China from Europe that the publicity would be bad since we are to ask Congress for military aid, including tanks, to Western Europe.

All of this is developing before we have received a reply from our telegrams to the Embassy in London regarding these tanks.

From the above it begins to appear that the transfer to the Chinese by the British may not be approved.

893.24/1-749 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, January 7, 1949—6 p. m.

82. For Depts info only, have you (Deptel 4777 Dec 28) been able ascertain whether tanks earmarked for scrapping or WE programs?

LOVETT

893.24/1-749 : Telegram

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

WASHINGTON, January 7, 1949—6 p. m.

8. Dept requests info Fu Tso-yi's⁶ disposition US arms delivered Nov from CinCFE.⁷ Were arms retained Peiping-Tientsin area or sent west?

Dept interested ConGen's estimate whether food stocks Peiping and possible channels supply would enable city endure extended investment.

LOVETT

⁵ Office of European Affairs.

⁶ Commander in Chief of the North China Bandit Suppression Headquarters.

⁷ Commander in Chief, Far East (MacArthur).

893.00/11-948 : Telegram

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

WASHINGTON, January 8, 1949—1 p. m.

29. Dept desires supplemental report losses suffered by ChiGovt subsequent to losses reported Embtel 2142 Nov 9.⁸ Request Emb periodically forward such report providing info as requested Deptel 1527 Nov 2.⁹

LOVETT

Executive Secretariat Files*Note by the Executive Secretary of the National Security Council (Souers) to the Council*

NSC 34/1

[WASHINGTON,] January 11, 1949.

UNITED STATES POLICY TOWARD CHINA

The enclosed report on the subject, prepared by the NSC Staff with the advice and assistance of representatives of the Departments of State, the Army, the Navy, and the Air Force, and of the National Security Resources Board and the Central Intelligence Agency, is submitted herewith for consideration by the National Security Council.

The report was prepared in the light of an initial working draft by the Department of State (Reference A¹⁰) and in the light of the discussion at the 26th Council meeting (Reference B¹¹).

It is recommended that, if the Council adopts the enclosed report, it be submitted to the President with the recommendation that he approve it and direct that it be implemented by all appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Enclosure]

Draft Report by the National Security Council

UNITED STATES POLICY TOWARD CHINA

1. The objective of the U.S. with respect to China is the eventual development by the Chinese themselves of a unified, stable and inde-

⁸ *Foreign Relations*, 1948, vol. VIII, p. 196.

⁹ *Ibid.*, p. 185.

¹⁰ NSC 34; see *ibid.*, p. 146, footnote 11.

¹¹ See draft report by the National Security Council, November 2, 1948, and footnote 29a, *ibid.*, p. 185.

pendent China friendly to the U.S., in order to forestall threats to our national security which would arise from the domination of China by any foreign power.

2. The U.S. should recognize that the development of a unified, stable and independent China acceptable to the U.S. is not likely to be accomplished by any apparent Chinese group or groups within the foreseeable future.

3. The immediate aim of the U.S. should, therefore, be to prevent China from becoming an adjunct of Soviet power. In pursuing this aim the U.S. should :

a. Make appropriate plans and timely preparations in order to exploit opportunities in China while maintaining flexibility and avoiding irrevocable commitments to any one course of action or to any one faction.

b. Regard efforts with respect to China as of lower priority than efforts in other areas where the benefits to U.S. security are more immediately commensurate with the expenditure of U.S. resources.

893.24/1-1249 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, January 12, 1949—1 p. m.
[Received January 13—1:23 a. m.]

136. Deptel 82, January 7, 6 p. m. Minister Supply states has supply tanks [and] armored cars originally intended for scrapping but War Office has requested they be retained for possible re-use, subject to consideration of Five Power Military Committee. If not required may be available for sale to Chinese, subject US approval. Despatch ¹² follows.

HOLMES

893.24/1-1249 : Telegram

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

PEIPING, January 12, 1949—3 p. m.
[Received January 13—4:03 p. m.]

30. ReDeptel 8, January 7. General Fu Tso-yi informed Assistant Military Attaché Barrett yesterday that all US arms delivered November from CinCFE have been distributed to his military units and were presently in hands troops variously disposed. Some troops thus equipped were in Chahar-Suiyuan area.

¹² Not printed.

Fu indicated food stocks Peiping were adequate for both military and civil needs for considerable period. Information received by ECA¹³ from Vice Chairman Food Rationing Committee Peiping indicates following food supplies held Peiping: 70 percent population has 2 months' food supply, 30 percent have supplies for 10 days, grain merchants 15 days' supply, city and provincial governments 10 days' supply. ECA representative believed army supplies were adequate for minimum 2 months generally with some units better off still.

Believe present foodstuffs Peiping adequate meet needs for 60 days without replenishment. Town at present has two airfields (one fully adequate in technical size although surfacing poor, second too short and surface too soft for heavy use) as possible channel help while a third field is in process construction (see Contel even date¹⁴). Airlift supplies from Tsingtao or Shanghai is therefore theoretically feasible. Invite attention Department, however, following circumstances:

(1) Loss Tsingtao following hypothetical departure American Navy would substantially hamper any projected airlift to Peiping because of lack adequate gas line supply here;

(2) It seems highly improbable that Nationalist Government would in any event assign adequate number planes and allocate grain and flour supply for operation;

(3) Political situation must be viewed as highly unstable with Fu intending hold out at latest only until given excuse by developments Nanking and possibly forced capitulate earlier; and

(4) With local troops ineffective, many hiding behind historical monuments and command quite lacking in offensive spirit, close investment Peiping by Communist forces (participants when reinforced by additional troops from Tientsin area) enables Communists deny use any and all Peiping airfields to transport planes by simple expedient placing artillery in near vicinity Peiping and shelling three air strips. In circumstances it is believed no undertaking should be projected on basis assumption Fu Tso-yi contemplates important long term military operations centered upon Peiping.

Sent Department; Tientsin 16.

CLUBB

893.00/1-2149 : Telegram

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

NANKING, January 21, 1949—11 a. m.

[Received 6:41 p. m.]

165. In East China battle Hsuchow-Pengpu area and North China battles Kalgan, Nankou, Huailai and Tientsin Nationalists lost

¹³ Economic Cooperation Administration.

¹⁴ Telegram No. 28, January 12, not printed.

through defection, capture and combat two armies with 80% US equipment totalling 35,000 men, two armies with 50% US equipment totalling 35,000 men, two armies with 15% US equipment totalling 30,000 men and approximately 20 armies without US training or equipment totalling 321,000 men.

In addition, now trapped in Peiping and presumably in process or on verge of surrender are 1 army and 3 divisions with at least 85% US equipment totalling 78,000 men and other units or elements of units lacking US equipment or training totalling 74,000 men.

Over-all losses in equipment and military stores impossible to figure since nobody Chinese or American knows even table of equipment virtually any Chinese unit, let alone what they actually have. Size of any given unit also varies most widely. Following statistics on US equipment in 2nd army group may furnish yardstick for wild guess. This group had 5 armies, one of which considered 85% US equipped and one 50%. US equipment included thirty-nine 105-howitzer; twelve 75-howitzer; fourteen 4.2-mortar; ten 590 rifles; 10,456 sub-machine guns (45 caliber); 193 heavy machine guns; 72 rocket launchers; 55 flame throwers; seven hundred and sixty-eight .60-mortars; one hundred and thirteen .81 mortars; forty-nine command cars; fifty-three weapons carriers; two hundred and seven 2 and 1/2 ton trucks; and 4 ambulances. Isolated known equipment losses are about 1,000 miscellaneous vehicles left behind when Hsuehshow evacuated and six 105-howitzer and fifty 75-howitzer in Tientsin.

Air losses include four F-51; five B-25; seven Mosquitos; six C-46's; one B-24; and three trainers. These figures are only ones solidly available but a better idea rate of attrition probably given by period from September 15 to November 23 during which CAF¹⁵ lost 71 aircraft mostly through air field crashes. No information on losses in petroleum products.

Above data are from Military Attaché¹⁶ and answer Deptel 1527, November 2, 1948¹⁷ and 29, January 8, 1949.

STUART

893.50 Recovery/1-2449: Telegram

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

WASHINGTON, January 24, 1949—8 p. m.

87. ChiGovt purchased with funds available under \$125 million grants following equipment from Dept Army: 1,000 BAR's and

¹⁵ Chinese Air Force.

¹⁶ Brig. Gen. Robert H. Soule, U.S.A.

¹⁷ *Foreign Relations*, 1948, vol. VIII, p. 185.

spares; 5,000,000 rnds Cal-30 ammo, 7,250 shells 60 mm mortar. Material assembled West Coast will be shipped Formosa possibly via commercial vessel. Dept required issue export license above arms and ammo. Presidential decision in Cabinet meeting Jan 14 provides mil supplies under China Aid Act ¹⁸ should be delivered insofar as possible accordance advice US mil authorities China. Emb requested therefore obtain Gen Barr ¹⁹ recommendations re above shipment and submit soonest.

ACHESON

711.00111 Armament Control/1-2649: Telegram

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

SHANGHAI, January 26, 1949—7 p. m.

[Received 9:18 p. m.]

260. Nanking's 103, January 26 ²⁰ requesting I consult with General Barr and reply direct to Department your query reference advisability of issuing export license for certain arms and ammunition now being assembled on the west coast for shipment to Formosa.

Barr's comments and recommendations follow :

"Please read my cable, CYF 771, dated 26 January personal to Maddocks, Department of Army,²¹ for estimate of situation. Our Government not only has to consider the possibility of war munitions eventually falling into the hands of Chinese Communists, but also must consider the possibility of their disposition by unscrupulous personnel of National Government in the event of its complete political and military collapse. In my opinion, under this condition, there is a strong likelihood that any munitions not immediately susceptible to Communist control would be loaded into Chinese vessels now in Formosan harbors and moved out with view disposition by sale in countries engaged internal dissent and located adjacent to or south of China. There would be little or no consideration given to allegiance or intents of the purchaser.

"In view of the foregoing, I recommend that export license be withheld pending clarification of military and political situation. I further recommend that pending clarification of the situation in China, no military aid supplies be shipped.[""]

Sent Department 260, repeated Nanking 199.

CABOT

¹⁸ Approved April 3, 1948; 62 Stat. 158.

¹⁹ Maj. Gen. David G. Barr, Director, Joint United States Military Advisory Group (JUSMAG) in China.

²⁰ See Department's No. 87, January 24, *supra*.

²¹ *Post*, p. 481.

Executive Secretariat Files

*Note by the Executive Secretary of the National Security Council
(Souers) to the Council*

NSC 22/3

[WASHINGTON,] February 2, 1949.

THE CURRENT POSITION OF THE UNITED STATES RESPECTING AID TO
CHINA

At the request of the Secretary of Defense,²² the attached memorandum on the subject and its enclosed telegrams are submitted herewith for consideration by the National Security Council as Item 3 on the Revised Agenda for its 33rd Meeting on Thursday, February 3, 1949.

It is recommended that, if the Council adopts one of the courses of action in regard to the Military Aid Program for China, as recommended by the Secretary of Defense in paragraph 5 of the attached memorandum, the course of action adopted be submitted to the President with the recommendation that he approve it and direct that it be implemented by all appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Enclosure]

Memorandum by the Secretary of Defense (Forrestal) to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, 2 February 1949.

Subject: Current Position of the United States Respecting Delivery of Aid to China

1. References: [Here follows list of various reference documents.]
2. Although the National Military Establishment is continuing the implementation of the Military Aid Program for China in accordance with the Governmental decision of 31 December 1948 (Reference *d*),²³ I believe the recent recommendations from the Director, U.S. Military Advisory Group, should be brought to the attention of the National Security Council for consideration and whatever action is deemed appropriate.

3. Because of the continued deterioration of the military and political position of the Nationalist Government in China, the Director of the Joint U. S. Military Advisory Group, in his message of January 26,

²² James Forrestal.

²³ Not found in Department of State files.

1949,²⁴ (Reference *e*) has recommended that the Chinese Aid-ship U.S.S. *Seminole* be held in Bangor, Washington, to await further developments. Additionally, the U.S. Consul General, Shanghai, China, in a message of January 26, 1949,²⁵ (Reference *f*), quotes the Director of the Joint U.S. Military Advisory Group as recommending that, pending clarification of the situation in China, no military aid supplies be shipped.

4. The U.S.S. *Warrick* with a partial cargo of naval supplies for the Military Aid Program is departing from San Francisco on February 2, 1949. The U.S.S. *Seminole*, now loading at Bangor, Washington, will depart on February 11, 1949, with a complete cargo of Army supplies for the program. The Military Aid supplies remaining to be delivered following the departure of these two vessels are from excess military stocks and are in the process of rehabilitation, or are new supplies in the process of manufacture expressly for this program. Approximately 50% of the \$125,000,000 worth of supplies have already reached China. An estimated additional 15% will be delivered on the two vessels mentioned above. The remaining 35% of the supplies will be delivered as they become available. A current estimate of funds, including those obligated through contracts but for which manufacture of supplies is not complete, and which remain unexpended is in the neighborhood of \$15-20 million. However, with the delivery dates of the bulk of the remaining supplies scheduled before April 30, 1949, these funds are diminishing rapidly.

5. In view of the recommendations from the Director of the Joint U.S. Military Advisory Group, and in view of the sizeable quantity of supplies scheduled for early delivery to China, I recommend that this subject be placed on the agenda for the meeting of the National Security Council for consideration on February 3, 1949. Specifically, I recommend that the National Security Council approve one of the following courses of action in regard to the Military Aid Program for China:

a. Confirm the present course of action for continuation of the Military Aid Program to completion.

b. Immediately suspend all procurement to the extent feasible, and suspend further delivery of supplies, including those now en route, to await further developments, or

c. Terminate the Military Aid Program for China, with undelivered supplies being applied, where possible, against other U.S. Government requirements, and the remaining funds reverting to the Miscellaneous Receipts of the Treasury Department.

JAMES FORRESTAL

²⁴ Printed as enclosure to this document.

²⁵ *Ante*, p. 478.

[Subenclosure]

The Director of the Joint United States Military Advisory Group in China (Barr) to Major General Ray T. Maddocks, Director, Plans and Operations, General Staff, United States Army

SHANGHAI, 26 January 1949.

CYF 771 OAGA. Although removed now from the best sources of information, I feel that such facts that I have been able to obtain on the present political and military situation and my conclusions and recommendations will be of value and interest to you.

Peace negotiations are making little progress and those most interested hold no hope for better peace terms than the eight conditions²⁶ specified by Mao Tse-Tung.²⁷ In a 1 hour conference with Li Tsung-Jen²⁸ on 23rd January at Nanking, he told me that if he could not obtain a reasonable and honorable peace with the Communists, he would take the Government south and continue to resist. I pointed out that if he lost the troops now in the Nanking-Shanghai area, the Government would have little chance of resisting effectively in the south if the Communists pursued in force. Their inherent mobility and effectiveness of their methods of transportation would enable them to quickly reach and crush any Nationalist effort to assemble, reorganize and train troops to meet them. In my opinion, if Li Tsung-Jen's peace efforts fall [*fail*], he will lose all his influence. In this case, I believe there will be a demand for the return of the Generalissimo to head the Government. I am convinced that the Generalissimo foresaw an eventuality, that he did not believe peace could be obtained when he resigned and that in his astuteness he deliberately played it the way he did. This conclusion was drawn from a conversation immediately preceding the Generalissimo's departure.

Undoubtedly the present "Peace Party" had hoped that the Communists would agree to peace talks and perhaps issue a cease-fire order prior to a real military threat against Nanking. It is apparent, however, that the Communists have no idea of talking peace until Nanking, and perhaps Shanghai, is in their hands. They are deliberately delaying such talks and even adding to terms originally stated. The fact that Nationalist troops are being sent south out of Nanking and that no resistance is being offered north of the Yangtze leads me to believe that the Government will not fight to hold Nanking. The point

²⁶ See telegram No. 41, January 14, from the Consul General at Peiping, vol. VIII, "Political and military situation in China", chapter I.

²⁷ Chairman of the Central Committee of the Chinese Communist Party.

²⁸ Acting President of the Republic of China; Generalissimo Chiang Kai-shek had retired on January 21 as President of China.

has been reached where Li Tsung-Jen must either accede to all Communist demands or evacuate the remainder of the Government south. I am inclined to believe that he will follow the latter course, if physically possible, which is doubtful at this moment.

In an interview on 25th Jan. with General Tang En-Po, Defense Commander of the Nanking-Shanghai area, he stated that he was not going to obey the orders of Li Tsung-Jen to discontinue work on defense installations in the Shanghai area, nor was he going to lift martial law as directed. He said he would also refuse to obey the instructions from any Communist-influenced Government. He further stated that he will fight for Shanghai until driven out when he plans to remove his troops to East coast points in Fukien Province. Tang En-Po has about 8 divisions under his control in the Shanghai area. He understands that he will not have the support of the people if he offers resistance there. He is a strong Generalissimo man obviously not in sympathy with the policy being pursued by the present Peace Party in Nanking but he cannot hope to hold Shanghai under the circumstances.

The Communists are reported in strength just north Pukow across the Yangtze River from Nanking. If the city is not already within artillery range it probably will be within 24 hours. The Reds have also reached the Yangtze East of Nanking at the Grand Canal and are approaching the river west of the city in the Wuhu area.

In view of the foregoing, it is recommended that the Chinese aid-ship *Seminole*, AKA-104, be held in Bangor or returned to that port to await developments.

As regards continuance of United States military aid to China, consideration should be given at this time to the policy to be pursued by the United States Government in the following 2 cases:

1. The present government rejects the Communist peace terms and is successful in establishing itself in Canton.
2. The Generalissimo reinstates himself as President and establishes an exile government in Taiwan.

Should the Chinese Air Force and Navy remain loyal to the Generalissimo, which is doubtful, and should they really fight, which they have not done in the past, he should be able to hold Taiwan for some time.

It is requested that reply reference decision made on disposition of *Seminole* be made through CinCFE.

Editorial Note

NSC Action No. 180. At its meeting on February 3 the National Security Council agreed to recommend to President Truman that,

inasmuch as further military aid to China, except for selective shipments, could not be used effectively and there was danger that it might fall into the hands of the Chinese Communists, or of other interests inimical to the United States, President Truman should advise key members of Congress that he considered it to be in the interests of national security to suspend further shipments under the Military Aid Program for China, including suspension of further deliveries to China of undelivered surplus military property remaining from the bulk sales arrangement made in 1946,³⁰ pending clarification and review of the situation, meanwhile permitting only such selective shipments as can be properly and effectively used.

894A.01/2-249

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] February 4, 1949.

In view of the existing situation in China, it would be highly undesirable to have General Wedemeyer³¹ proceed to China or to Formosa. In his message of December 18, 1948,³² General Barr stated that unless the United States gave all-out aid to the Chinese Government, including the immediate employment of United States Armed Forces, which he emphatically did not recommend, the National Government could not maintain a foothold in south China against a determined Communist advance. General Wedemeyer's visit to China would immediately lead the Generalissimo and his supporters to expect substantial United States aid which could not materialize under existing circumstances. Such a visit would be subject to strong criticism from non-Communist Chinese in many quarters who oppose United States military aid to the National Government and who would look upon the visit as indication that the United States was planning the extension of large-scale military aid. The Chinese people are almost unanimous in their desire for peace at any price and General Wedemeyer's visit would be looked upon as dashing their hopes for peace. In brief, General Wedemeyer's visit to China would inevitably be misleading, in the absence of any large-scale aid program, and would thus not only serve no useful purpose but on the contrary might do much harm.

³⁰ Signed at Shanghai, August 30, 1946, Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40.

³¹ Lt. Gen. Albert C. Wedemeyer, Deputy Chief of Staff for Plans and Combat Operations, Department of the Army; Special Representative of President Truman in China, July-September 1947.

³² See summary of telegram No. 871 OAGA, December 18, 1948, *Foreign Relations*, 1948, vol. VIII, p. 236.

It is believed that his presence in Formosa at this time would be equally undesirable. The visit of General Wedemeyer to that island would at once arouse deep suspicion on the part of many Chinese that his visit was connected with United States plans to take over or establish bases on the island, thus playing into the hands of the Communists by providing them with ammunition for their propaganda attacks on "American imperialism". It would serve to convince the Chinese of U.S. preoccupation with Formosa at a time when it is to the interest of this country to avoid drawing attention to the U.S. interest in the island. There is now under consideration by the National Security Council a paper regarding United States policy with respect to Formosa³³ in which emphasis is placed upon the desirability of discouraging the influx of mainland Chinese to the island, both because the evacuees are likely to include the most undesirable elements of the Chinese Government and because the presence of these elements would add further fuel to the flame of Formosan discontent and resentment against the Chinese Government. General Wedemeyer's visit, serving to confirm and increase Chinese suspicion of U.S. interest in Formosa, might increase the flood of Chinese Government refugees from the mainland and, in any event, such a visit would create the very impression which it is desirable to avoid to the greatest extent possible.

As exemplified by the attached telegram,³⁴ U.S. Consul General in Formosa is in confidential and intimate touch with General Chen Cheng, the Governor of the island.³⁵

W. W[ALTON] B[UTTERWORTH]

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, February 4, 1949.

Subject: United States Policy Toward China

Reference: NSC 34/1³⁶

The President has this date approved the reference report and directs that it be implemented by all appropriate Executive Depart-

³³ See NSC 37/2, February 3, p. 281.

³⁴ Telegram No. 27, February 2, from the Consul General at Taipei, p. 278.

³⁵ Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State, in a memorandum of February 7 stated: "Mr. Forrestal called Mr. Acheson over the weekend to consider the invitation General Wedemeyer had received from the Chinese to visit China and Formosa. It was agreed that General Wedemeyer should not make the visit."

³⁶ January 11, p. 474.

ments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

893.00/2-749

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] February 7, 1949.

Reference is made to your telephone conversation of February 1, 1949 with Judge Robert Patterson³⁷ on the subject of a proposed "Eisenhower³⁸ Commission" to China, a suggestion put forth at a recent meeting on China organized by Mr. Fred McKee.³⁹ Judge Patterson indicated that he was bringing this matter to your attention at the specific request of McKee and Clark Eichelberger,⁴⁰ who also attended the meeting.

FE strongly supports your "unenthusiastic" response to this proposition and believes for the following reasons that it would be highly inadvisable to send any such mission to China at this time: (1) the Department already receives full coverage on the situation in China from our Embassy and Consulates on the spot, as well as from the Departments of the Army and Navy and the C.I.A.;⁴¹ (2) during the past three years we have had various missions to China which have, in result, added to rather than lessened this Government's difficulties; and, more importantly (3) to dispatch such a mission to China at this time would be grossly misleading, not only to the American people but to the Chinese as well, in the face of the present hopeless situation which confronts the National Government of China.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/2-749

*Memorandum by Brigadier General Marshall S. Carter, Special
Assistant to the Secretary of State, to the Executive Secretariat*

[WASHINGTON,] February 7, 1949.

At the off-the-record meeting of Congressional leaders with the President, the Vice President, and the Secretary at the White House

³⁷ Former Secretary of War.

³⁸ General of the Army Dwight D. Eisenhower, former Chief of Staff, U.S.A.

³⁹ Frederick C. McKee, Pittsburgh business executive.

⁴⁰ Clark M. Eichelberger, national director of the Association for the United Nations.

⁴¹ Central Intelligence Agency.

on Saturday ⁴² morning it was the unanimous opinion of the Congressional leaders that no action should be taken which would, in effect place an embargo or stoppage on continued shipments to China. They thought that if there were any way in which shipments could be delayed without formal action until the situation clarified, it should be done.

The President said that he would think the matter over and not make any decision until he had talked again with the Secretary. Until such time as this conversation is held and a Presidential decision is made, no action should be taken which would contravene the Congressional leaders' unanimous view.

M[ARSHALL] S. C[ARTER]

893.24/2-749

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] February 7, 1949.

The President has given further thought to the recommendation of the National Security Council on munitions to China in the light of the advice given him by the Congressional leaders. He believes that it is wise for us to follow that advice. Therefore, we will not suspend or embargo shipments to China. However, wherever possible, it is desirable that shipments be delayed where this can be done without formal action. I suspect that this means that the ships now loading should be permitted to sail.

I should like a report on how other shipments from the United States and surplus property shipments from the Far East can be slowed down.

D[EAN] A[CHESON]

893.24/2-749

*Memorandum by the Executive Secretary of the National Security
Council (Souers)*

WASHINGTON, February 8, 1949.

Subject: Current Position of the United States Respecting Delivery of Aid to China

After discussion with key members of Congress of the advisability of suspending further shipments of military aid to China as recom-

⁴² February 5.

mended by the National Security Council in the reference action,⁴³ the President has decided that, in order not to discourage continued Chinese resistance to communist aggression, such shipments of military aid should not be suspended nor terminated but no effort should be made to expedite deliveries.

SIDNEY W. SOUERS

893.24/2-1549

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Freeman)

[WASHINGTON,] February 15, 1949.

During the course of a conversation today with M. Daridan,⁴⁴ he stated that the French Embassy had recently received a telegram from Paris with regard to a conversation in Hong Kong between Dr. T. V. Soong and M. Maux, a representative of the French Government concerned with economic affairs. This conversation, it was noted, took place subsequent to Soong's removal from the Governorship of Kwangtung Province.

According to M. Daridan, Soong had approached Maux on several previous occasions with the request that the French Government facilitate the shipment of arms and ammunition to south China for the purpose of strengthening the anti-Communist forces in that area. In this most recent conversation referred to above, Soong reiterated his request that the French Government permit the exportation of a "large amount" of small arms and ammunition to be shipped immediately to south China. Apparently to strengthen his argument, Soong informed Maux that the U.S. Government was presently shipping arms and ammunition to Formosa, thus implying that the U.S. would not object to the French Government making similar shipments to south China.

M. Daridan stated that all previous requests for the shipment of arms and ammunition to south China had been turned down and export licenses denied and that this request would also be refused. He indicated that the real reason for such refusal was based on the concern of the French Government that such materiel might eventually fall into the hands of the Communists or find its way across the border to the Viet Minh. M. Daridan stated, however, that the French Government was interested in Soong's statement that the U.S. was continuing shipment of arms and ammunition to Formosa and would appreciate information on this point. I pointed out that, at the time of the recent military debacles in north China, there were shipments of materiel

⁴³ NSC Action No. 180, February 3; see editorial notes, p. 482.

⁴⁴ Jean Daridan, Counselor of the French Embassy.

purchased by the Chinese under the \$125 million grants en route to China which were subsequently diverted to Formosa. I also referred to the legislative history of Section 404(b) of the China Aid Act of 1948 and pointed out that the final decision as to where materiel purchased under this Section was to be shipped was up to the Chinese themselves. I also indicated to M. Daridan that no other authority existed for the transfer of military supplies to China and that the amount of unallotted funds under the \$125 million grants was negligible.

M. Daridan appeared reassured and left me with the impression that he had been concerned over the possibility that the U.S. was shipping military supplies to Formosa under a new aid program of which the French Government had not been informed.

Executive Secretariat Files

Memorandum by the Executive Secretary of the National Security Council (Souers)

WASHINGTON, February 18, 1949.

Subject: Coordination of Policy Respecting Delivery of Aid to China

At its 34th meeting the National Security Council noted the attached memorandum by the Secretary of Defense on the subject and agreed to recommend to the President, with respect to the President's decision concerning the delivery of military aid to China, as indicated in Reference A,⁴⁵ that the President direct that this decision be implemented by all appropriate Executive Departments and Agencies of the U.S. Government under the coordination of the Secretary of State.

The President has this date approved the above recommendation and accordingly directs that his decision concerning the delivery of military aid to China, as indicated in Reference A, be implemented by all appropriate Executive Departments and Agencies of the U.S. Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Annex]

Memorandum by the Secretary of Defense (Forrestal) to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, 17 February 1949.

Subject: Coordination of Policy Respecting Delivery of Aid to China

1. In your memorandum of 8 February 1949, you informed the National Security Council that the President has decided that, in order

⁴⁵ Memorandum by the Executive Secretary of the National Security Council, February 8, p. 486.

not to discourage continued Chinese resistance to Communist aggression, shipments of military aid should not be suspended or terminated, but no effort should be made to expedite deliveries.

2. I believe that responsibility for giving guidance in carrying out this policy should be clearly fixed, in order that there may be full coordination of the way in which the policy is implemented by the various branches of the Government. At the present time, the several departments of the National Military Establishment have to interpret independently their responsibilities for implementing the program of aid to China. This is also true of the other branches of the Government, including the Treasury Department (with respect to certain procurement) and Commerce Department (with respect to export licenses), which are also involved in implementing the program. As a result, difficulties arise with respect to interpreting the way in which the program should be carried out.

3. In order to remedy these difficulties and to prevent conflicts of interpretation from arising in this situation, which is changing so rapidly and may give rise to emergency problems, I wish to recommend that, in accordance with normal National Security Council procedure, the Secretary of State coordinate the implementation and interpretation by all appropriate executive departments and agencies of the U.S. policy respecting delivery of aid to China.

JAMES FORRESTAL

893.50 Recovery/2-1849 : Telegram

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

WASHINGTON, February 18, 1949—7 p. m.

243. In view of withdrawal JUSMAG, Amb should forward to Dept recommendations Military, Naval, Air Attachés concerning future deliveries military materiel procured by Chinese Govt under \$125 million grants, together with any comments he may wish make. Dept understands NME⁴⁶ will designate attachés, utilizing any military or naval personnel in China, to check and secure receipts for military aid supplies procured by NME. Attachés will be informed by NME of shipments such materiel.

ACHESON

⁴⁶ National Military Establishment.

893.50 Recovery/2-2349

*The Under Secretary of State (Webb) to the Secretary of
Commerce (Sawyer)*

WASHINGTON, February 23, 1949.

MY DEAR MR. SECRETARY: I am enclosing a copy of a Top Secret memorandum of February 8, 1949 addressed to the National Security Council by the Executive Secretary of that group.

In compliance with the President's decision expressed in this memorandum, the Department of State is continuing to authorize the Department of the Treasury to pay to the Chinese Government funds from the \$125 million grants when requests for payment are received from the Chinese Embassy. The Department interprets this directive as indicating that this Government should continue to grant export licenses on materials purchased by the Chinese Government with funds from the \$125 million grants, with the understanding that this action is to be taken within the limits of the quotas for such materials and that it does not involve any question of expediting shipments.

Sincerely yours,

JAMES E. WEBB

893.00/2-2549

*Memorandum of Conversation, by the Director of the Office of Far
Eastern Affairs (Butterworth)*

[WASHINGTON,] February 25, 1949.

Participants: Lieutenant General Albert C. Wedemeyer, Director of
Plans and Operations
Ambassador John J. Muccio⁴⁷
W. Walton Butterworth, FE

Ambassador Muccio and I lunched at the Pentagon with General Wedemeyer today and in the course of our discussion of Korean matters, General Wedemeyer expressed one or two opinions about the Chinese situation which are worth recording.

He said that although there was no factual basis to be found in the reports reaching the Department of the Army, he had the conviction that the Chinese Communists had not decided to refrain from crossing the Yangtze River but were regrouping for an onward push at a time convenient to them, and that in the meantime through infiltration south of the Yangtze they were undoubtedly making strenuous efforts to soften up that area.

⁴⁷ Special Representative of President Truman to Korea.

Secondly, and more importantly, General Wedemeyer expressed the same opinion that General Barr had reported, namely, that the military balance in China had shifted so overwhelmingly in favor of the Communists that the latter had the capability of taking control of any part of the mainland. General Wedemeyer went on to say that he thought it was worse than useless to send any aid to the Nationalist areas of the mainland; that in his view the Chinese Communists would welcome such action on our part and wait until the aid arrived and then take it over together with the area.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/2-2549 : Telegram

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

WASHINGTON, February 25, 1949—8 p. m.

269. Procedure handling receipt cargoes being resolved. (Deptel 243 Feb 18 rptd Canton as telCan 23) Due suspense activities JUSMAG March 1 interim arrangement necessary provide for handling cargo scheduled arrive Keelung commercial vessel SS *Mt. Mansfield* 5 March. Departments Army, Air Force have requested, aside from future arrangements other vessels, that Amb arrange attachés to receive and deliver approximately 1300 M tons supplies from *Mansfield* to Chinese. Dept Army forwarding applicable operating instructions direct to Military Attaché Nanking.

ACHESON

Executive Secretariat Files

Note by the Executive Secretary of the National Security Council (Souers) to the Council

NSC 34/2

[WASHINGTON,] February 28, 1949.

U.S. POLICY TOWARD CHINA

The attached report by the Secretary of State on the subject is submitted herewith for consideration by the National Security Council and, at his request, is scheduled as Item 2 on the Agenda for the 35th Council Meeting to be held on Thursday, March 3, 1949.

It is recommended that, if the Council adopts the enclosed report, it be forwarded to the President with the recommendation that he approve the recommendations contained therein and direct their implementation by all appropriate executive departments and agencies

of the U.S. Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Enclosure]

Draft Report by the National Security Council on United States Policy Toward China

The Problem

U.S. policy toward China.

Analysis

1. During the past four months, the situation in China has so developed that we are warranted in reviewing PPS-39* and spelling out with somewhat greater precision some of the considerations laid down in that basic survey of the China problem.

2. As anticipated, the Communists have shattered, although they have not yet completely destroyed, the power of the National Government. They now look southward across the Yangtze and westward across the mountains watching the fragmentation of non-communist China and pondering by what means and at what tempo they should proceed to bring the rest of China under their sway. These are tactical questions, the answers to which turn on a variety of complex and fluid factors. It would be unprofitable in this paper to speculate on these details. It is sufficient here to recognize that (a) preponderant power has now clearly passed to the Communists, (b) although a remnant of the National Government may survive in South China or Formosa for months or years to come, it will at best be a local regime with its claims to international recognition based on insubstantial legalisms and (c) eventually most or all of China will come under Communist rule.

3. The fruits of victory in a revolution are responsibility. Now for the Communists comes the pay-off. Manchuria and North China are already theirs. They have moved from caves to chancelleries and for the first time are confronted with urban and national problems. For a long time to come these problems are going to grow rather than diminish.

4. The administrative problems confronting the Communists now loom as a larger factor than anticipated in PPS-39. The disciplined administration of their sprawling domain, possessing no tradition of strong, centralized government but rather beset by stubborn regional tendencies, is likely to constitute a formidable task for Mao Tse-tung.

*NSC 34 [Footnote in the source text. See PPS 39, September 7, 1948, *Foreign Relations*, 1948, vol. VIII, p. 146.]

The Chinese Communists are not taking over an existing centralized state apparatus as the Communists in Czechoslovakia did but are having to build from the ground up.

5. As responsibility for the rehabilitation of China is only beginning to descend on the shoulders of the Communists, the problems which will arise from this massive factor have not yet come into play. It may be months before we see the first evidences of them and years before they develop their full force. The first conflict between communist theory and Chinese environmental realities will probably come concretely to our attention in the economic field—when the Communists, in attempting to carry out their avowed intent to develop China economically, seek trade with the West. A separate paper deals with this specific problem.†

6. The natural points of conflict between the Chinese Communists and the USSR have not yet developed. The vestiges of American “intervention” still serve the Chinese communists as a rationalization for equating their interests with those of the USSR. This is so notwithstanding obvious Kremlin cupidity in northern Manchuria, its extra-territorial activities in Sinkiang and the dispatch of the Soviet Ambassador⁴⁸ with the Nationalist Foreign Office to Canton. The full force of nationalism remains to be released in Communist China.

7. The Kremlin for its part appears to be following at the moment a policy of cautious conservatism. Its negotiations with the Nationalists for special privileges in Sinkiang are tidily sewing up that province for the USSR no matter who wins out anywhere in China—and are a salutary check on inflated Chinese Communist ambitions. The southward move of the Soviet Ambassador was an elaborate masquerade of correct Soviet intentions toward the National Government, warning Mao that the Kremlin had feet in both camps and could do business in a number of directions at once.

8. Our present position is not a happy one. The new China emerging in the north is deeply suspicious of and hostile to us—and is likely to continue to be so for a long time to come. As for our policy of aid to the Nationalists, it is now beyond question of doubt that any further military program for the Chinese mainland will in the foreseeable future (a) be ineffectual, (b) eventually contribute to the military strength of the Communists and (c) perhaps most important of all, solidify the Chinese people in support of the Communists and perpetuate the delusion that China's interests lie with the USSR.

9. It is even questionable whether we have anything to gain from political support of any of the remaining anti-communist public

†NSC 41 [Footnote in the source text. See NSC 41, dated February 28, p. 826.]
⁴⁸N. V. Roschin.

figures in China. They are likely to prove only slightly less impotent than Yugoslav royalists. The only vital political resistance to the Chinese Communists is something that is not yet evident. That force will take time to appear and develop; but inevitably it will, simply because a China under the Communists will breed it just as surely as Chiang's Kuomintang was the forcing ground of the Communists. It will and must necessarily be a grass-roots movement finding its expression in native Chinese forms.

10. We shall therefore find ourselves before long entering upon a period when the Kremlin and we shall find ourselves in reversed roles. The Kremlin is going to try to influence, probably more than we, the course of events in China. And it will not be easy, as we can testify with feeling. We shall be seeking to discover, nourish and bring to power a new revolution, a revolution which may eventually have to come to a test of arms with the Chinese Communists, if it cannot in the meantime so modify the composition and character of the Chinese Communists that they become a truly independent government, existing in amicable relations with the world community.

11. This is obviously a long-term proposition. There is, however, no short-cut. Consequently we have no sound alternative but to accommodate our native impatience to this fact. The Kremlin waited twenty-five years for the fulfillment of its revolution in China. We may have to persevere as long or longer. But in one respect at least we can wait with greater confidence: we are under no Byzantine Tartar compulsion to shackle as our own captive the revolution which we seek to release.

Recommendations

12. We should avoid military and political support of any non-communist regimes in China unless the respective regimes are willing actively to resist communism with or without U.S. aid and, unless further, it is evident that such support would mean the overthrow of, or at least successful resistance to, the Communists.

13. We should, of course, maintain so far as feasible active official contact with all elements in China.

14. We should continue to recognize the National Government until the situation is further clarified.

15. We should, in the near future, publicly reaffirm our adherence to the traditional American policies of (1) friendship for the Chinese people, (2) respect for the territorial independence and administrative integrity of China and (3) advocacy of the "Open Door".

16. We should maintain our cultural and informational program, both official and private, at the most active feasible level.

17. While scrupulously avoiding the appearance of intervention, we should be alert to exploit through political and economic means

any rifts between the Chinese Communists and the USSR and between the Stalinist and other elements in China both within and outside of the communist structure.

[Paragraph 18 not printed.]

893.50 Recovery/2-2849: Telegram

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

NANKING, February 28, 1949—5 p. m.

[Received March 1—12:55 a. m.]

487. After consultation with three service attachés I raised question of future deliveries military materiel procured by Chinese Government with Acting President (reDeptel 243, February 18, telCan 23). He asked that future munitions shipments be delayed until after reorganization of Cabinet which is now contemplated. Estimated time government reorganization approximately 3 weeks and I therefore recommend, in compliance Acting President's wishes, that appropriate US Government agency delay present future loading US ports sufficient to assure no deliveries military materiel Chinese waters during month of March. Any shipments already loaded or on high seas on US naval vessels or chartered by US Government might be diverted to intermediate port during March. Any shipments already en route on commercial vessels should, we feel, be permitted proceed and Embassy promptly notified of cargo, approximate date arrival and port of destination.

No diversion contemplated, of course, in cargo arriving *Mount Mansfield* March 5 Keelung (Deptel 269, February 25, telCan 31).

Sent Department, repeated AmEmb Canton 114.

STUART

893.20 Mission/4-449

*Final Report by Major General David G. Barr, Director of the Joint United States Military Advisory Group in China*⁴⁹

[Tokyo,] 28 February 1949.

[Here follow four sections, "Introduction," "JUSMAGChina," "Special Activities", and "Miscellaneous".]

V. *Future Plans*

18. Continuation of JUSMAGChina

a. General—JUSMAGChina was forced to leave China long before its mission was accomplished. Whether that mission, to create a modern

⁴⁹ Prepared for the Joint Chiefs of Staff; copy transmitted to the Department on April 4 by the Department of the Army. JUSMAG after departing from China on January 29, operated in Tokyo until it suspended activities on March 3, 1949.

armed force in keeping with the needs and resources of China, could ever be accomplished is questionable. Even with a considerable outlay of American personnel and large supplies of military aid over a long period of years, an armed force comparable in effectiveness to that of even mediocre United States troops probably cannot be produced within a decade.

b. United States policy—The policy of the United States has been to oppose Communism. If this policy is continued on the mainland of Asia, the present Chinese Nationalist Government or a non-Communist successor, with all its weaknesses, is the only possible agent. There is no alternative short of armed intervention. Active military support of this Government by the United States will require advisors who can, for all practical purposes, command the Chinese Armed Forces, and will require a large amount of aid in the form of arms, ammunition and materials. The cost of this will be great, perhaps excessive; whether *too great* is beyond the scope of this report. Regardless of United States policies, desires and willingness, no advisory group can accomplish much unless actively desired by the Chinese and fully supported by them.

c. Conditions—Should JUSMAGChina be reactivated, the following conditions are essential:

(1) That United States policy be one of active opposition to Communism on the mainland of Asia.

(2) That United States policy be for the continuation of military aid to China for a prolonged period, the distribution of this aid to be controlled by the United States.

(3) That the prohibition against operational advice be relaxed and that advisors be furnished in accordance with needs.

(4) That the Chinese actively desire an advisory group and that there be definite *written* agreement between the governments concerned, as to mission, scope and functioning and as to responsibility for logistic support.

d. Views of Deputy Director—See recommendations A and B, page 23, Annex 4.⁵⁰

VI. *Recommendations*

19. Continuation of JUSMAGChina

I recommend that JUSMAGChina be reactivated only if the following conditions are met in full:

a. That United States policy is one of active opposition to Communism on the mainland of Asia.

b. That United States policy is to continue military air [*aid*] supplies to China for a prolonged period, the distribution of this aid to be controlled by the United States.

⁵⁰ Not printed.

c. That the prohibition against operational advice is relaxed and that advisors are furnished in accordance with needs.

d. That the Chinese actively desire an advisory group and that there is definite *written* agreement between the governments concerned as to its mission, scope and functioning and as to responsibility for logistic support.

20. JCS directive

I recommend that, in event of reactivation, the present JCS directive be revised to accomplish the following:

a. Provide a single Director who will have command responsibility for the coordination, operation and common administration of the group and who will not at the same time be chief of an advisory division.

b. Authorize operational advice and entry of advisors into combat areas at the discretion of the Director.

21. Allotment of advisors

I recommend that, in event of reactivation, advisors be provided on a scale approximately as follows:

a. To the Ministry, to the Supreme Staff, and to the Headquarters of the Major Forces: the minimum to further the development attained during the past two years. If reactivation took place in the near future, this group of top level advisors would number about 150.

b. To general and special service schools: approximately four officers and two enlisted men per school.

c. To training centers and units in training: three officers per center and one officer and one enlisted man per division and per regiment.

d. To Air Force and Navy installations: on a scale comparable with the above with due consideration for their existing strength and resources.

22. Allotment of overhead

I recommend that, in case of reactivation, common services, exclusive of air-lift, be furnished by the Department of the Army and that air-lift be furnished by the Department of the Air Force; that the administrative overhead, exclusive of air-lift, be a minimum but that initial plans provide about 400 military for this purpose.

23. Supply

I recommend that, in event of reactivation, supply be based on the Far East Command with maximum direct delivery to the largest JUSMAGChina group and that theater stocks be held to minimum consistent with scheduled deliveries.

DAVID G. BARR

893.50 Recovery/3-149 : Telegram

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

NANKING, March 1, 1949—9 a. m.

[Received March 1—8:53 a. m.]

491. [To Taipei:] Cargo military material procured by Chinese Government under \$125,000,000 grant scheduled arrive Keelung commercial vessel *Mt. Mansfield* 5 March (Deptel 269, to Nanking, telCan 31). Assistant air and military attachés, Major Lucky and Capt. McAllister, flying Taipei March 1 to represent Ambassador, in receiving and delivering approximately 1300 metric tons supplies from *Mansfield* to Chinese. Please render all possible facilities.

Sent Taipei as 25; repeated Department 491, AmEmbassy Canton 119.

STUART

893.50 Recovery/3-149

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] March 1, 1949.

Participants: Mr. Blaisdell, Assistant Secretary of Commerce
Mr. Butterworth, FE
Mr. Sprouse, CA

Mr. Butterworth and Mr. Sprouse called at Mr. Blaisdell's office this afternoon by appointment to discuss with him the question of the issuance by the Department of Commerce of export licenses covering lead purchased by the Chinese Government under the \$125 million grants in the light of the President's decision concerning further deliveries of military aid supplies to China.

Mr. Butterworth explained the manner in which this decision had been reached and pointed out that the military equipment purchased by the Chinese Government from the \$125 million grants was going forward in accordance with the President's decision which had indicated that such shipments should not be suspended or terminated but that no effort should be made to expedite them. Mr. Butterworth continued that action along similar lines, within the allocations available for China, seemed appropriate in the case of lead.

Mr. Blaisdell said that the Department of Commerce took the position that this item was in short supply and that China should be treated in the same manner as other countries, emphasizing at the same time that in view of the likelihood that such materials would not be used

for the purpose intended they should not be made available to the Chinese Government.

Mr. Butterworth explained some of the background of the thinking with respect to continued deliveries of military aid supplies to China and said that it appeared consistent with the President's decision that allocations of lead be made to the Chinese Government on a basis of its capacity to use such materials and that such allocations be made on a monthly basis. He further suggested that it would be advisable to request American officials in China to furnish an estimate of the Chinese Government's actual requirements of lead which would serve as a basis for the allocations.

The conversation ended on this note without any indication from Mr. Blaisdell of the action that the Department of Commerce might take.

Executive Secretariat Files

Memorandum by the Acting Executive Secretary of the National Security Council (Lay) to the Council

WASHINGTON, March 3, 1949.

Subject: United States Policy Toward China

Reference: NSC 34/2⁵¹

The President has this date approved the Recommendations contained in the reference report, and directs that they be implemented by all appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

JAMES S. LAY, JR.

893.50 Recovery/2-2849: Telegram

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

WASHINGTON, March 4, 1949—noon.

297. Urtel 487 Feb 28. Pursuant request Acting President and recommendation reftel Depts State, Army, Navy and Air Force in meeting Mar 2 reached fol decision: US Govt agencies will temporarily withhold future shipments from US ports to assure no deliveries mil materiel Chinese waters during March except as indicated below. As recommended reftel no diversion will be made cargo *Mount Mansfield* arriving Keelung Mar 5. Nor will USS *Seminole* due Keelung approx Mar 10 be diverted since it is arriving so soon after *Mansfield* and Navy cannot tie up vessel over extended period inactivity. How-

⁵¹ February 28, p. 491.

ever, USS *Warrick* carrying 150 tons electronic equipment now en route will not call at or discharge its cargo Chinese port during Mar.

Commercial vessels now en route Keelung as follows: *Pres. Buchanan*, 812 tons air force and motor vehicle spare parts, weapons spare parts, tires and tubes, ETA Mar 25; *SS Pacific Transport*, 916 tons air force, ordnance, signal and engineering supplies, ETA Mar 26.

Action being taken quietly as possible and no publicity will be given here unless press or other inquiries necessitate explanation.

US Govt agencies will continue flow supplies to ports where they will accumulate for future shipment. No action being taken halt shipments equipment purchased commercially by Chi Govt and shipped commercial vessels.

Suggest you inform Acting Pres action being taken and point out desirability his taking steps approximately inform Chi Emb here. For your info Dept apprehensive lest Acting Pres subsequently request suspended shipments be unloaded mainland point easily susceptible Comm control and sees no reason why you should volunteer to him info contained in second para.

ACHESON

893.50 Recovery/2-2849: Telegram

The Secretary of State to the Consul General at Taipei (Krentz)

WASHINGTON, March 4, 1949—noon.

32. For Merchant.⁵² [Here follow texts of telegram No. 487, February 28, from the Ambassador in China, page 495, and telegram No. 297, *supra*.]

For your info USS *Seminole* carries 6200 tons engineering, medical, ordnance, signal supplies and automotive spare parts. No action taken divert this vessel partially because possibility Acting Pres might subsequently request its cargo be unloaded mainland point easily susceptible Comm control. US Govt particularly concerned lest milit materiel under \$125 million grants fall into unauthorized hands. You are instructed therefore endeavor obtain info re disposition various shipments US milit aid supplies landed Formosa. Pertinent in this connection are shipment approx 125,000 rifles and small arms ammo USS *Washburn* and shipment rifles, sub-machine guns, howitzers, powder, ammo, medical supplies, weapons and vehicles spare parts USS *Yancey* both which arrived Keelung Jan 3.

ACHESON

⁵² Livingston T. Merchant, Counselor of Embassy in China on special detail to Formosa.

893.24/3-849

*The Assistant Chief of the Munitions Division (Hamilton) to the
Director of Logistics, Department of the Army (Aurand)*

WASHINGTON, March 8, 1949.

SIR: Reference is made to negotiations by the Chinese Nationalist Government for the purchase of the following types of tanks from surplus to the value of \$10,000,000:

MK .5 Stewart Tanks
MK .8 Stewart Tanks
Sherman Tanks
Staghound Armoured Cars.

The Commercial International Corporation of America acting on behalf of the Chinese Nationalist Government, has negotiated with the British Ministry of Supply for the purchase of such tanks, and has been informed that the tanks cannot be made available out of British surplus.

The American Mission in London has asked this Department whether some, or all, of the tanks will become available out of surplus, and whether a sale of such tanks to the Chinese Nationalist Government through the Commerce International Corporation would be approved.

Please inform this Department as to the present or future availability of such equipment to meet the Chinese Government's request.

Very truly yours,

MINARD HAMILTON

893.50 Recovery/3-1749: Telegram

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

NANKING, March 17, 1949—noon.
[Received March 17—1:26 a. m.]

588. ReEmbtel 487, February 28, and Deptel 297, March 4. In light of Ho Ying-chin's appointment as Premier and forthcoming reorganization of Cabinet, Acting President requests that US Government resume shipment of military materiel procured by Chinese Government. Acting President hopes it will be possible to recommence deliveries to Chinese ports, including Taiwan, soon as possible.

I recommend Department comply with request of Acting President. Sent Department 588, repeated Canton 166.

STUART

893.00B/3-1749 : Telegram

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

WASHINGTON, March 17, 1949—3 p. m.

354. Pls obtain available info and report by tel to Dept ur estimate extent Commies have succeeded reorganizing and integrating into own forces Nat Govt forces surrendered or defected to them past 6 months.

ACHESON

840.50 Recovery/3-1749 : Telegram

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

WASHINGTON, March 18, 1949—8 p. m.

367. In compliance request Acting President and recommendation urtel 588 March 17 repeated Canton as 166 Dept requested Military Services resume shipment material procured by Chi Govt under 125 million grants. Military Services indicate steps being taken resume shipments. Request you forward Dept recommendations concerning port to which Naval aid supplies should be sent.

ACHESON

893.24/3-2149

Lieutenant Colonel Charles I. Davis, of the Logistics Division, Department of the Army, to the Assistant Chief of the Munitions Division (Hamilton)

WASHINGTON, March 21, 1949.

DEAR MR. HAMILTON: Reference is made to your letter dated 8 March 1949 regarding the availability of certain items listed therein.

In the past the Department of the Army has conducted transactions with the Commerce International Corporation and its predecessor, Ellis-Novak Company, whereby a certain quantity of tanks and spare parts were made available to them for subsequent transfer to the Nationalist Government of China on a scrap return basis. These transactions had the full approval of the Department of State as they arose, and it was by this means that the Department of the Army made available at that time all then existing surplus tanks and spare parts.

In the present instance it would appear that the Commerce International Corporation has approached the British on this subject because Department of the Army surplus stocks on these items were exhausted. With the exception of Sherman tanks, the items mentioned are British vehicles and except for wartime exigencies are not nor-

mally stocked or handled by the Department of the Army and therefore none of the latter types are available.

If the Nationalist Government of China is desirous of receiving comparable United States type equipment, statutory authority (Public Laws 472⁵³ and 793⁵⁴—80th Congress), as well as operating procedures are in effect; assuming, of course, sufficient funds are available in connection with the cited statutory authority to cover the request. Therefore, under these conditions the Chinese may deal directly with the United States Government without recourse to Commerce International Corporation.

Sincerely yours,

CHARLES I. DAVIS

893.00B/3-2649 : Telegram

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

NANKING, March 26, 1949—10 a. m.
[Received March 26—4:23 a. m.]

655. Deptel 354, March 17. Military estimates [that] since September 1, 1948, Communists have effectively integrated in own forces 210,000 troops which could be used as combatant troops, including disaffected units and those surrendered at Peiping. In addition Communists may have maximum of 400,000 captured Nationalist troops being used as replacements or service forces.

STUART

893.00/3-2949

Memorandum of Conversation, by Mr. Trevor W. Swett of the Office of Controls

[WASHINGTON,] March 29, 1949.

Participants: Mr. Swett, CON
Col. Li, Chinese Purchasing Mission
Mr. E. T. Cummins

On March 29, I met Colonel Li, a member of the Chinese Purchasing Commission. He is an Armored Force specialist, Chief of the Logistics Division, Armored Force Command, on extended duty in Washington. During a long conversation, he stressed several points:

1. The Chinese Nationalist Government he feels can still operate effectively against the Communists, given adequate materiel and a U.S. Advisory Mission with authority to train troops, allocate supplies and decide on procedures. He feels that a Mission of several hundred would

⁵³ Approved April 3, 1948; 62 Stat. 137.

⁵⁴ Approved June 28, 1948; 62 Stat. 1054.

be necessary. I noted that Constantine Brown ⁵⁵ has mentioned a mission of 1500. He thinks this figure would not be excessive.

2. He feels that the American military missions and Advisory Group personnel have emphasized only what is wrong in Chinese plans and procedures and have not presented constructive criticism or helpful suggestion.

3. Armor can be even now very effective in China. This should comprise basically light tanks, preferably armed with 75 mm Hows rather than with only 37 mm guns as at present. (He suggested removal of turrets, the howitzers to be installed with simple shield protection.) Some M-4 medium tanks would also be of great use when heavier fire power is needed. He states that the only effective armor the Chinese have is ex-American scrapped tanks, largely M-5's, which he (Col. Li) had repaired and re-welded at Honolulu.

4. A vital present military defect in the Chinese Army is psychological. Poor morale and unwillingness to fight is evident. Inflation has resulted in low pay or none. Troops have inadequate rations. The soldiers know that their families are hungry.

5. To correct the present involved and unsatisfactory situation economic assistance for the country and *simultaneously* food supply and equipment assistance for the Army are required. The military factor is of primary importance, but ECA ⁵⁶ help limited only to civilians will not correct present conditions. American economic assistance should be arranged to include, for the troops, in addition to equipment and training, economic and financial assistance—rations and pay.

6. The younger officers in the Nationalist Army feel hampered by present regulations, especially those covering promotion, which are difficult to change but which must be changed if efficiency is to result. Col. Li is one of these younger senior officers (apparently about 38 years old), a graduate of Whampoa,⁵⁷ and of several U.S. Service schools including Ft. Benning and Leavenworth (1945).

7. He states that the Generalissimo is now in a position where he is forced to, and can do nothing else than, accept American advice on training and supply.

8. The Communists are largely armed with Japanese equipment received from the Russians; also they have much Czech-made armament, obviously received from the Russians.

9. The Communists have much American equipment formerly in Nationalist possession. This he states is chiefly infantry equipment. When I asked about the quantities of U.S. rifles so lost, he said that in fact they were not, when lost, of shooting value since there was no cal .30 ammunition for them. He explained that we had furnished M-1's, which as semi-automatic clip-fed weapons in practice need a greater ammunition supply than the single shot bolt action M 1903 type. He did not know what amount of cal .30 ammunition had been furnished to China, but thought the last important transfers thereof were in 1946. (Note: Much cal .30 ammunition was authorized for

⁵⁵ Newspaper columnist.

⁵⁶ Economic Cooperation Administration.

⁵⁷ Chinese military academy at Canton.

China last fall, and shipped.) The standard Chinese rifle is the Mauser, 7.9 mm.

Nothing Col. Li said indicated real appreciation of the financial obstacles which U.S. economic and military aid to China on the scale he deems necessary would meet, even if legislative authority were granted.

893.24/4-149

The Secretary of Commerce (Sawyer) to President Truman

[WASHINGTON, undated.]

MY DEAR MR. PRESIDENT: Several weeks ago you instructed that procurement and export proceed under the \$125 million Military Aid Program for China. At that time one of the primary considerations against continuance of the program was the probability of shipments falling into the hands of the Chinese communist forces. I have been increasingly disturbed during recent weeks by reports that many items of military significance continue to flow from Nationalist hands to those of the Communists. In addition, there is real doubt among my advisers that the Nationalist Government currently possesses adequate munitions making facilities to consume the quantities of materials being shipped under the authorized program. For these reasons even though all the funds have already been committed, I feel you might wish to review the unshipped balance of the program which amounts to approximately \$45 million.

Although only a small part of the total military aid program requires my concurrence in the exercise of export control, I am currently withholding approval on export license applications for a number of chemicals and metal products which possess military significance. In view of the possibility of these materials being diverted to the Communist forces, I shall continue to hold such items unless you direct otherwise.

Respectfully yours,

[CHARLES SAWYER]

893.50 Recovery/4-149

Memorandum by the Deputy Director of the Office of Far Eastern Affairs (Allison) to the Under Secretary of State (Webb)

[WASHINGTON,] April 1, 1949.

Secretary Sawyer's Letter Concerning Export Control of Certain Materials Purchased by the Chinese Government Under the \$125 Million Grants (Section 404(b) of the China Aid Act of 1948).

Following discussion in NSC concerning continuation of shipments of military supplies to China under the \$125 million grants the President held an off-the-record meeting with Congressional leaders, the Vice President, and the Secretary of State on Saturday, February 5. It was the unanimous opinion of the Congressional leaders that no action should be taken which would in effect place an embargo or stoppage on continued shipments to China (Tab A).⁵⁸ An NSC memorandum of February 8 set forth a directive from the President that deliveries should be continued but that no effort should be made to expedite them (Tab B).

Action taken in implementation of this directive was indicated in an FE memorandum of March 29 to the Under Secretary (Tab C),⁵⁹ the final paragraph of which pointed out current developments with respect to the items on which Commerce is withholding licenses. These items include:

Miscellaneous steel products	-	2-3,000 tons
Aluminum	-	150 tons
Copper and brass products	-	200 tons
Chemicals for arsenals	-	5,000 tons
Zinc ingots	-	200 tons
Miscellaneous tools and arsenal equipment		

Since the decision to continue deliveries under the \$125 million grants was made by the President in consultation with Congressional leaders, any modification of this decision would necessarily require action by the President. FE is of the opinion, therefore, that deliveries of all materials purchased by the Chinese with funds from the \$125 million grants should be continued. If there were new developments which required a review of the previous decision by the President, the matter would presumably be taken up again in NSC for review and subsequent reference to the President. However, FE is of the opinion that conditions in China have not appreciably changed since early February, and, in order not to weaken the hand of government leaders during current political negotiations and in order not to discourage continued resistance to Communist aggression, deliveries of the items requiring licenses should be continued in amounts commensurate with Chinese needs and consumption capacities.⁶⁰

⁵⁸ See memorandum of February 7 by Brigadier General Carter, p. 485.

⁵⁹ Not printed; it was the basis for the report to the National Security Council on April 4, p. 507.

⁶⁰ Paul H. Nitze, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), in a memorandum of April 25 stated that he had seen Mr. Blaisdell of the Department of Commerce and persuaded him to drop his suggestion and to proceed with issuance of export licenses.

893.24/4-449

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] April 4, 1949.

Participants: Mr. Paul Hubert, Attaché, the Belgian Embassy
 Mr. Philip D. Sprouse, Chief, Chinese Affairs
 Mr. William McAfee, Chinese Affairs

Mr. Hubert called at my office this morning at his own request to discuss this Government's policy with respect to shipment of arms to China. Mr. Hubert indicated that the Chinese had approached certain Belgian munitions concerns with the request that arms be manufactured for the Chinese Government, and he asked if the United States permitted the shipment of arms to China from sources in this country. I indicated to him that shipments of military matériel were going forward and, with respect to the \$125 million grants, noted that though the funds allocated had been completely obligated as of April 1, shipments of matériel procured by the Chinese with such funds, either through agencies of this Government or through private commercial channels, would be continuing and that the requisite export licenses were being granted as applications were submitted.

Mr. McAfee suggested that Mr. Hubert might find it advisable to discuss this matter with the appropriate persons in the Office of European Affairs who on previous occasion had indicated concern over the export from the United Kingdom or Western Europe of arms and ammunitions which might be of use in any future Western Union rearmament program. Mr. McAfee stated that officers in Eur have expressed the opinion that there might be unfavorable repercussions either in the press or in Congress if it were learned that nations in that area were exporting arms while this Government was preparing programs of military assistance for them.

Executive Secretariat Files

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] April 4, 1949.

Subject: Implementation of NSC 34/2.⁶¹

Pursuant to NSC Action No. 123, October 6, 1948, the following progress report on the implementation of NSC 34/2, "United States

⁶¹ February 28, p. 491.

Policy With Respect to China", is submitted for the information of the Council:

While the United States Government is continuing the implementation of the China Aid Act of 1948, proposals to the Congress for further aid to the Chinese Government are at present restricted to a request by the Administrator for Economic Cooperation,⁶² supported by the Department of State, for an extension of the authority of the China Act of 1948 to permit commitment of unobligated appropriations after April 2, 1949, the present expiration date of the Act, until December 31, 1949. This request is now under consideration by the Congress. This action permits a continuation of the economic portion of the present aid program during the period when the outcome of political negotiations now being undertaken between the Chinese Government and the Chinese Communist Party is uncertain. This program does not include the extension of military aid beyond that provided for in Section 404(b) of the Act, the total amount of which will have been obligated by April 2, 1949, the date of the expiration of the Act. Until the situation in China is clarified, no further action is presently contemplated with respect to the extension of additional aid to the Chinese Government.

Active official contact is being maintained by the Embassy at Nanking and by the Embassy Office established at Canton with the various organs of the Chinese Government and all consular offices in Chinese Government areas maintain contact with the local officials and with non-official Chinese leaders. Official contact with local officials in Communist-held areas has been hampered by the refusal of those authorities to recognize the official status of foreign consular officers and the difficulty of access to high ranking Chinese Communist officials. Our consular officers at Peiping and Tientsin, which are under Communist occupation, have, however, had some contact with the lower ranking local officials at those cities.

The United States Government continues to recognize the National Government.

No action has yet been taken to reaffirm publicly the principles set forth in paragraph 15 of NSC 34/2. It is believed that such a public declaration would be inappropriate at the present juncture since it would have to be accompanied by a statement of the United States Government's present position regarding aid to China and would thus be harmful to the National Government.

Steps are being taken to maintain our cultural and informational program, both official and private, at the most active feasible level. In connection with the evacuation of American citizens from China,

⁶² Paul G. Hoffman.

efforts have been made to urge the evacuation of only those Americans who have no compelling reason to remain in China with the thought that key missionary and business personnel would remain and endeavor to carry on their normal activities to the greatest extent possible. Our USIS⁶³ program is being carried on normally in National Government areas and is being continued in Peiping and Tientsin under Communist occupation except for the distribution of news releases to the vernacular press, the latter having been discontinued by order of the local Chinese authorities.

Every effort is being made through our USIS program and through VOUSA⁶⁴ broadcasts to emphasize the imperialistic aims of the USSR in China and the threat to China from Soviet actions in Manchuria, Sinkiang and Inner Mongolia. The implementation of NSC 41⁶⁵ regarding trade policy toward Communist areas should provide further means for exploiting rifts between the Chinese Communists and the USSR.

DEAN ACHESON

893.00/4-449

Memorandum by the Assistant Secretary of State (Rusk) to the Under Secretary of State (Webb)

[WASHINGTON,] April 4, 1949.

Attached is a sample of the many suggestions we have been getting about sending a U.S. Commission to China.⁶⁶ Although I should like Butterworth's views and have not yet raised this with him, my own present reactions follow:

I. *Purpose*

a. *Fact-finding*

If the commission is to be a fact-finding commission, it would have to have a large staff and would require many months in China to approximate or even to check the information we already have about the situation in China. We have had many hundreds of Americans in China during the past three years, and many thousands prior to that. I believe that the basic facts are known to us. I do not believe that a temporary commission would substantially alter our view of the facts.

⁶³ United States Information Service.

⁶⁴ Voice of U.S.A.

⁶⁵ February 28, p. 826.

⁶⁶ Not printed; it was a resolution to be presented on January 19 to the Foreign Traders Association of Philadelphia, Inc., to petition President Truman to send a commission to China to make a public report and for the adoption of a positive policy based on the findings of the commission.

b. Policy-advisory

If the commission is designed to advise the President or the Secretary of State on what our policy toward China should be, it must be carefully selected, furnished with as complete information as possible, and related to constitutional authority in such a way as not to force the hand of the government of the U.S. with its recommendations. Our China policy must be fitted into our *capabilities* and our *other* responsibilities; the President and the Secretary of State must be able to deal with China in relation to other urgent and pressing matters.

c. Propaganda

If the purpose in sending such a commission is to play a propaganda role with respect to either foreign or domestic politics, considerable *advance* study must be given to the propaganda effects of the various types of conclusions or recommendations which such a commission might develop. To register a passing interest in China by sending a commission might have beneficial short-range effects—but if nothing tangible results, the long-range effects would show a net set-back. If the primary purpose of the commission is propaganda, more thought should be given as to whether the Chinese Government should not bring the China situation to the attention of the United Nations. In this way an international commission could be sent to China, political opinion could be mobilized on a much broader scale, and the U.S. would not have the unilateral responsibility for any follow-up indicated by the commission's report. Thus far, the Chinese Government has been reluctant to present the case to the UN.

II. *Composition*

Any such commission should be kept small in number (not more than 3 if possible) and should consist of persons of national or international reputation. The persons selected, if they have any previous experience with China, will have inevitable policy implications, hence selection would be a very difficult task. Names which occur at the moment: Barry Bingham,⁶⁷ Robert Gordon Sproul (University of California), George Johnson (Dean of Howard Law School). A single Special Representative of the President is another possibility.

III. *Prestige factor*

Frank consideration of the decline of U.S. prestige in China during the past two years might lead to the conclusion that the dispatch of a commission to China might lead to a serious humiliation for the U.S. in the reception accorded such a commission. It is a point which would require most careful checking with Ambassador Stuart.

⁶⁷ Louisville editor.

IV. *Alternative suggestion*

The following alternative plan of action might be feasible:

1. Call Ambassador Stuart home for a month's consultation (FE is studying desirability of this now).⁶⁸

2. Assemble in Department a panel of prominent Americans to consult with the Secretary, Stuart, Butterworth and Kennan⁶⁹ on China, along the lines of the group assembled last year on Germany.⁷⁰

The panel should have:

(a) Background material furnished in advance by the Department.

(b) Top Secret factual briefing by Departmental officers and by Ambassador Stuart.

(c) Several days of policy discussion with senior officers of the Department present.

(d) An opportunity to reach any conclusions or recommendations which might come out of the group discussion.

3. Let the question of a next procedure await the panel's consideration. A commission to China might result; in any event we would be on a firmer basis for any further action.

893.24/4-749

Memorandum by the Chief of the Division of Chinese Affairs (Sproue) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] April 7, 1949.

Last December the Chinese attempted to procure tanks from surplus stocks in the United Kingdom. At that time the Department in a telegram to London⁷¹ stated: "Whether or not tanks might be useful in UK or for Western Union rearmament, sending of any tanks from UK or Western Europe to any other part of the world when Western Union countries are actively seeking US military equipment would be most inadvisable". In a subsequent telegram to London⁷² the Department again stated: "Department prepared inform Chinese shipment military materiel usable or not from UK and WE undesirable view effect publicity such transfer might have on foreign military assistance programs".

⁶⁸ See telegram No. 510, April 22, 7 p. m., to the Ambassador in China, vol. VIII, "Successive moves of the Embassy office in China . . .".

⁶⁹ George F. Kennan, Director of Policy Planning Staff.

⁷⁰ Subsequently such a panel was organized; see Department of State *Bulletin*, August 22, 1949, p. 279, and *ibid.*, September 5, 1949, p. 358.

⁷¹ Telegram No. 4610, December 10, 1948, not printed.

⁷² Telegram No. 4777, December 28, 1948, p. 472.

Dr. Wang ⁷³ called Friday on Mr. McAfee to state that the Chinese had located 85 tanks in the UK which had been sold to a private contractor and would be scrapped unless other use was found for them. Dr. Wang asked if it would be possible to have this Government withdraw its objections to such exports from the UK and Mr. McAfee indicated that he would look into the matter. Mr. McAfee has since been in communication with Mr. Matlock ⁷⁴ of Eur and Mr. Fales ⁷⁵ of BC, the latter of whom has indicated that in his opinion BC at this time might be even more firmly opposed to the export from the UK or Western Europe of any type of military materiel in view of the military assistance program which was not public at the time the earlier decision was made.

It is understood that the Chinese have also been attempting to obtain import licenses (for import into the U.S. and subsequent reconditioning here) on 30 armored motor vehicles, carrying a 75 mm. cannon, which they believe are available from stocks in the UK.

In view of the foregoing, the Department may be put in the position of preventing the Chinese from acquiring military stocks discarded by foreign countries as useless. It seems desirable, therefore, that this matter be pursued further, and probably at a higher level. If you do not think it appropriate to bring it up in the Under Secretary's staff meeting, I will get in touch with Ted Achilles ⁷⁶ and ask him what can be done.

893.50 Recovery/4-849

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] April 8, 1949.

During a call this afternoon Dr. Tan ⁷⁷ asked if the Department could obtain information with regard to the status of the program being undertaken by the Federal Bureau of Supply for the procurement of certain materials for China from funds allocated under the \$125 million grants. He explained that these funds, totalling approximately \$6 million, had been transferred last November to the Federal Bureau of Supply in accordance with arrangements between the Chinese and the Department of the Army. He continued that the Federal Bureau of Supply had on several occasions informed the Chinese

⁷³ Wang Shou-chin, Counselor of the Chinese Embassy.

⁷⁴ Clifford C. Matlock, Special Assistant to the Director of the Office of European Affairs (Hickerson).

⁷⁵ Herbert P. Fales, Assistant Chief of the Division of British Commonwealth Affairs.

⁷⁶ Deputy Director of the Office of European Affairs.

⁷⁷ Dr. Tan Shao-hwa, Minister of the Chinese Embassy.

Embassy that they could not proceed with the signing of contracts for supplies of desired materials because the Department of Commerce had not yet given its approval of the necessary allocations. Dr. Tan said that he would appreciate my looking into the matter to see what could be done to facilitate the carrying out of this part of the program.

I told Dr. Tan that we had been in touch with the Department of Commerce on this subject and that I would again look into the matter and let him know as soon as possible the result.

893.50 Recovery/4-1349

The Secretary of State to the Chairman of the House Committee on Foreign Affairs (Kee)

WASHINGTON, April 13, 1949.

MY DEAR JUDGE KEE: There have come to my attention certain statements regarding aid to China made in the House Committee on Foreign Affairs Report of Minority Views entitled "Extension of the European Recovery Program"⁷⁸ which indicate some misunderstanding of the implementation of Section 404(b) of the China Aid Act of 1948 authorizing the extension of aid through grants in the amount of \$125 million to the Chinese Government and of the situation in China.

It seemed evident to the Department from Congressional debate on this section of the China Aid Act of 1948 that the \$125 million grants were to be expended by the Chinese Government for whatever purpose it desired, although it was clearly indicated that it was expected that the funds would be utilized for the purchase of military supplies and equipment. It was also evident that these funds were to be expended by the Chinese Government on its own option and responsibility. Under the terms decided upon by the President for the disbursement of these funds the Chinese Government has been required to submit to the Department of State requests for payment with respect to commodities or services procured by it, supported by documentation evidencing the transactions. Under these terms, the Department of State has examined "the documentation submitted by the Chinese Government to determine that the request is not in excess of the total represented by the invoices or other supporting data, and will authorize the Treasury to make the appropriate payments". It is important to emphasize that the initiative in the expenditure of these funds has been wholly with the Chinese Government and that no payments could

⁷⁸ House Document No. 323, 81st Cong., 1st sess., pt. 2.

be made from these funds unless the Chinese Government submitted a request for disbursement.

The first request submitted to the Department of State by the Chinese Government for withdrawals from these funds was dated July 23, 1948, although the Department transmitted the President's terms to the Chinese Ambassador on June 28, 1948⁷⁹ and the Chinese Ambassador addressed a note to the Secretary of State accepting the terms on July 1, 1948. It should be noted that the Chinese Government has, however, utilized approximately \$9.4 million from these funds to pay for military materiel purchased during the months of April, May, June and July prior to the submission of its first request on July 23. It should also be noted that it was not until August 12, 1948, 33 days after the Chinese Government's acceptance of the President's terms, that it had presented requests for withdrawals from the grants totalling \$13.5 million.

The statement is noted in the Report of Minority Views that "still another month elapsed before the directive was issued, setting in motion the military-aid program". Presumably this statement refers to the President's directive of July 28, 1948⁸⁰ authorizing United States Government departments, establishments and agencies to transfer from their own stocks or procure for the Chinese Government military materiel to be paid for from the \$125 million grants. It should be noted that the Department of State took the initiative in arranging for this procedure, which was not explicitly set forth in the China Aid Act of 1948, as a means of assisting the Chinese Government in making purchases of materiel from these funds.

The statement is also made in the Report of Minority Views that "no arms or ammunition from the program reached the Chinese forces until December 1948". It is difficult to reconcile this statement with the Department's records that the following shipments of military materiel were purchased by the Chinese Government using funds from the \$125 million grants. Approximately 10,000 tons of small arms and artillery ammunition purchased by the Chinese Government from the Office of the Foreign Liquidation Commissioner at a fraction of the procurement cost were shipped to China during June, July and August 1948; 51 fighter aircraft purchased from the same agency were delivered to China in September 1948; and finally, aviation gasoline, aircraft spare parts and communications equipment were shipped to China during the same months.

It is understood that Major General David Barr, who served as the Director of the Joint United States Military Advisory Group in

⁷⁹ *Foreign Relations*, 1948, vol. VIII, p. 100.

⁸⁰ *Ibid.*, p. 124.

China, has recently testified before your Committee. His testimony regarding the recent defeats of the Chinese Government forces and other phases of the military situation in China has undoubtedly served to explain the true facts of the situation and to show that the present military difficulties of the Chinese Government are not the result of actions of the United States Government.

With respect to the statement that the Administration has never permitted our American advisory group in China to give active military advice and training to Chinese forces at all levels, as it has in Greece under precisely similar circumstances, it should be recalled that in consideration by the Congress of an aid program for China in 1948 the House placed China in the same category as Greece with respect to military aid in both the enabling bill and the appropriation bill. However, the proviso that China be furnished military aid in the same manner as that being extended to Greece was deleted by the Congress itself prior to the passage of the China Aid Act of 1948. For this reason and from a careful review of the debate in the Congress leading up to the elimination of the provision of the Act in question, this Department retains the conviction that it was faithfully interpreting the Bipartisan Policy of the Congress in not placing China in the same category as Greece with respect to military aid.

It would be appreciated if you would bring this letter to the attention of the members of your Committee.

Sincerely yours,

For the Secretary of State:

ERNEST A. GROSS
Assistant Secretary

893.24/5-449

Memorandum of Conversation, by the Deputy Director of the Office of European Affairs (Achilles)

[WASHINGTON,] May 4, 1949.

Participants: Col. Lee [*Li*], Chinese Army⁸¹
Mr. Cummins
Mr. Achilles, EUR

Mr. Cummins brought in Col. Lee to discuss the question of 85 tanks which he said had been purchased for scrap from the British Government by a private company in England, and which he wished to import into the United States for rehabilitation, rearmament, and reexport to China. He said that the tanks were obsolete and of no use

⁸¹ Member of the Chinese Military Procurement Technical Group in the United States.

for military purposes in Europe, but that they would be of material value in China.

I said that I could speak only for Eur, but that from our point of view we saw a number of difficulties for the British in such a transaction. At a time when we were about to introduce legislation for the transfer of military equipment to the UK and other Atlantic Pact⁸² countries there would undoubtedly be serious criticism in Congress over the export from the UK to any place outside Europe of tanks. I asked whether the Western Union Military Committee had inspected the tanks, as they had done with the Belgian tanks, to determine whether they were of any value for the defense of Europe. He said that this had not been done, and I said our views would be considerably influenced by the result of such an inspection.

(What I should have told him, but did not think of, was that this is a problem for the British to worry about rather than this Government. If the British haven't sense enough to stop things like this themselves, I don't see how we can save them indefinitely.)

893.24/5-449

Colonel David Li to the Deputy Director of the Office of European Affairs (Achilles)

WASHINGTON, May 4, 1949.

DEAR MR. ACHILLES: In accordance with my conversation with you today regarding the 85 (eighty-five) Medium Tanks located in England, I am submitting the following information. A copy of this letter is being filed with the Munitions Division and the Division of Chinese Affairs.

On April 8, 1949 the application for the above tanks was filed with the Munitions Division for the import to this country from England and export to China of 85 Medium Tanks M4, without armament, manufactured during the early part of the last War. These tanks had been sold sometime ago last year by the British Government to the Rotinoff Construction Company in England for scrap. I have inspected these tanks and they are in the suburb of London. With extensive repairs and overhaul they can be used by my country in our fight against the communists.

It is my understanding that due to their condition and obsolete design, and without armament, no European country wants them or would undertake to rehabilitate and use them.

⁸² Signed at Washington, April 4, Department of State Treaties and Other International Agreements Series No. 1964; 63 Stat. (pt. 2) 2241.

We are purchasing these tanks by barter in exchange for our scrap. In so doing we can save our Government money and make use of the equipment which is considered useless according to European standards and which has already been disposed of by the British government to a commercial firm.

I would greatly appreciate if you could expedite this matter and favor me with a definite answer.

Very truly yours,

DAVID LI

893.50 Recovery/5-649: Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, May 6, 1949—9 p. m.

TelCan 149. For your info at recent conference representatives State and National Military Establishment decision made deliver Naval supplies procured under \$125 million grants to Taiwan and not Shanghai. Navy Dept has issued appropriate instructions.

ACHESON

893.50 Recovery/5-1049

The Under Secretary of State (Webb) to the Director of the Office of Far Eastern Affairs (Butterworth)

WASHINGTON, May 10, 1949.

MR. BUTTERWORTH: General Chennault⁸⁸ is coming in to see me tomorrow at 12:00 o'clock. He has several propositions, as follows:

(1) He wishes to emphasize the importance of having \$5,000,000 of the available ECA funds set up to insure continuation of airline operations into the southern provinces and states where resistance to the Communists may continue to be encouraged for a long time. I understand ECA is favorable and that Pan American Airways is handling the presentation to the Government.

(2) He feels there is a definite possibility, without too large a Government expenditure, of continuing some form of resistance although he agrees that the Generalissimo and most of the Nationalist leaders are out of the picture from here on out.

(3) If it gets to a point that we openly encourage armed conflict, he wants to be in on the fight.

I understand the above from one of his friends who has been advising him to work with the State Department rather than against it.

Please let me have your advice.

JAMES E. WEBB

⁸⁸ Maj. Gen. Claire L. Chennault (ret.), chairman of board of Civil Air Transport, Inc., and wartime commanding general of U.S. 14th Air Force in China.

893.796/5-1049

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Webb)*

[WASHINGTON,] May 10, 1949.

Following the receipt of your memorandum of May 10, 1949 regarding the purposes of General Chennault's call tomorrow, I telephoned Mr. Cleveland, Chief of ECA's China Program Division, to inquire whether ECA had indicated to any one that it was prepared to take favorable action on the proposal to make \$5,000,000 of ECA funds available for the operations of airlines into the interior Chinese provinces. Mr. Cleveland states categorically that ECA has definitely refused to approve any such proposal. This action reflects the decisions reached during a conference on the China aid program held in the Secretary's office on March 10, 1949, at which were present the Secretary, Mr. Hoffman, Mr. Roger Lapham, Mr. Cleveland and I. A copy of a memorandum of this conversation, dated March 10, 1949,⁸⁴ is attached for your information. You will note that the final sentence of paragraph No. 6 on page 2 of this memorandum states: "This decision also rules out the proposed project for assistance to Chinese airlines."

With respect to the other proposals which General Chennault may advance, it is suggested that it be pointed out to him that the open support by the U.S. Government of continuing resistance after the Generalissimo and most of the Nationalist leaders are out of the picture, which would certainly be ineffective in the light of the appraisals of the respective military capabilities of the National Government and the Chinese Communists submitted by U.S. military representatives in China, would endanger the interests and possibly the lives of U.S. citizens resident throughout the Communist-held areas of China. You might add that the U.S. Government is obviously interested in assisting any effort to resist Communist domination that promises to be effective, but that, in the absence of evidence that such assistance would do more than delay the Communist advance, it would seem undesirable to imperil the interests and lives of our own citizens when the end result could only be further strengthening of the Communists by the inevitable possession of the aid extended by the U.S. and a further dissipation of U.S. resources.

Please also read Foreign Missions letter to Senator Connally⁸⁵ attached.

W. W[ALTON] B[UTTERWORTH]

⁸⁴ *Post*, p. 630.

⁸⁵ Not printed; Senator Tom Connally, of Texas, was Chairman of the Senate Committee on Foreign Relations.

893.24/5-1149

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

[WASHINGTON,] May 11, 1949.

Participants: General Chennault
The Under Secretary
Mr. Rusk—G
Mr. Sprouse—CA

General Claire Lee Chennault called today by appointment to discuss the question of aid to China. He said that the two principal points of his proposal for aid to China were (1) U.S. aid for the establishment of a zone running from Ninghsia in the northwest to Yunnan in southwest China which could be defended against the Chinese Communists and thus prevent the spread of Communism into southeast Asia and (2) the sending of a U.S. military mission to China which would be charged with procurement, distribution and all handling of military aid supplies for the Chinese armies in the provinces included in this zone, as well as the provision of training and advice to these forces. (General Chennault subsequently elaborated upon his proposal in a conversation with Mr. Rusk. A copy of a memorandum containing these remarks is attached.⁸⁶)

I informed General Chennault that I welcomed an opportunity to discuss this problem with him and to hear his views on the subject. I pointed out that in consideration of his proposal, however, the Department naturally had to keep in mind the position of American citizens and interests in those areas of China under Chinese Communist occupation and the possible effect on them of the plan proposed since we had a responsibility in this connection. I also said that the President had to keep in mind in consideration of the problem of aid to foreign countries our commitments in other areas and the necessity of reducing expenditures to the greatest extent possible in view of the budgetary problem.

Mr. Rusk said that he would be glad to have General Chennault continue the conversation in his office where a secretary could make a transcript of his remarks, which would then be available for study. He also said that, while the Department could make no commitment in regard to General Chennault's proposal, it would like to have an opportunity to give appropriate consideration thereto.

⁸⁶ *Infra.*

893.24/5-1149

Transcript of Conversation

[WASHINGTON,] May 11, 1949.

Participants: Maj. Gen. Claire Lee Chennault
Dean Rusk, Assistant Secretary of State
Philip D. Sprouse, Division of Chinese Affairs

CHENNAULT: I suggest that we consider a policy of continuing communications with China to prevent the spread of communism through Indo-China. There is a long belt of Chinese territory which extends from Outer Mongolia on the north to the Gulf of Tonkin and the Indo-China and Burmese borders on the south. The provinces of Ningsia, Kansu, Tsinghai, Shensi, Szechwan, Kweichow, Yunnan and the west part of Kwangsi are included in this belt. This belt is protected toward the east by deserts and almost impassable mountains so it would be extremely difficult for any invading army to penetrate it. On the north there is a belt 200 miles wide of shifting sands and on the east the Ordos Desert. Toward the south, Szechwan is protected by a barrier of mountains from 200 to 300 miles wide. Farther south Kwangsi and Yunnan are protected by a belt of mountains approximately 200 miles wide. An army of sufficient size to penetrate this belt and conquer the provinces inside would be faced with almost unsolvable supply and transport problems. This is rather a limited objective but I think it would pay off because defense of this belt would contain communism in the remainder of China where it might fall eventually of its own weight. On the other hand, if the communists are able to occupy Yunnan Province, the most westerly province of China, it will then command the approaches to Indo-China, Siam and Burma. They will be able to extend communism through these areas into Malaya, possibly Indonesia, and the other islands of the Pacific and westward through Burma into India.

Yunnan is the only road from China proper into the remainder of Asia. Another feature of the most western provinces of Tsinghai, Kansu and Ningsia is the fact that they are predominantly Moslem and they have been fighting communists for twenty years. I have talked to the Governors of those three provinces within the last month and they assured me that they can never permit communism to enter their provinces and will fight to their death to prevent it.

A second suggestion is that we do not consider giving aid to the Nationalist Government as such, but that if any plan for aiding resistance to communism in China is adopted that we establish a strong military mission who will be charged with responsibility for procuring such things as given, for distributing it to the provinces where it is most required, training the Chinese military forces in the use of our

equipment and for planning the tactics and employment of that equipment. The aid which we have given to China since August 1945 has not been used effectively because we had no such mission. I believe we should guard our aid as carefully as we do the aid given to Turkey and to Greece and that we should be sure that every dollar we devote to resisting communism in Asia is spent wisely and that we receive a dollar's value for it.

There are ports in China still open through which this aid can be distributed to the interior—Canton, Kowloon and Pakhoi. If these ports are eventually closed, I believe it would be easier to arrange cooperation with the French in Indo-China and operate out of the port of Haiphong. From Haiphong it would be necessary to fly military equipment up to Kunming, a distance of 385 miles, or over to Liuchow, about the same distance. From Liuchow and from Kunming military equipment can be moved by truck throughout the length of the zone which I have described.

RUSK: Would you comment on the attitude of the populations in these areas; would we get about the same friendly reception we had?

CHENNAULT: I have discussed American aid with the Governors of the provinces, including this long zone, and I received assurances from all of them that they will cooperate fully with us in any way desired and that their people will fight against the invasion of communist forces. There is adequate area left and a population of approximately 150 million people for resisting the further spread of communism in China.

SPROUSE: What is the size of the Moslem armies in the northwest?

CHENNAULT: Approximately 200,000 troops which include one non-Moslem army of three divisions. Kansu has authorized thirty divisions but it actually has only ten of about 10,000 men each. Shensi has 150,000 first-class troops and approximately 50,000 reserves or second-rank troops. Szechwan, the most populous province in China, has approximately 200,000 troops now and has launched a program for seven divisions of 70,000 men. I don't know what the statistics of the Kweichow military are. Yunnan now has one nationalist army at reduced strength; it could easily recruit 100,000 troops but would require considerable aid in arming and equipping them.

RUSK: What size flight of transport would make a dent on this problem?

CHENNAULT: C-46. Three airlines, CNAC, CATC and CAT,⁸⁷ have approximately 90 transports in operation now. I believe these three airlines could provide the necessary transport for the movement of all

⁸⁷ China National Aviation Corporation, Central Air Transport Corporation, and Civil Air Transport, respectively.

the military equipment that would be required under this plan.

RUSK: Would the remnants of the nationalist air force give us any assistance?

CHENNAULT: No, I think not. I wouldn't depend on them. If air support is required, I would recommend a full unit with Chinese mechanics, guards, laborers and American pilots. We would need liaison planes and full air support.

RUSK: Would you need to supply food to those people?

CHENNAULT: Szechwan and Yunnan produce food surpluses. Kweichow, Tsinghai and Ningsia might require some food. If we draw up a plan we should continue ECA aid, fertilizers, agricultural instructions, etc., in order to increase food production in all provinces. ECA should be continued along with military aid.

RUSK: What about the lake areas?

CHENNAULT: No. Assuming that we have done nothing constructive so far, we will lose all that country. I don't think we could hold it except at enormous expense. I suggest we consider giving aid to General Hsueh Yueh, the Governor of Kwangtung Province, who could defend the northern Kwangtung borders in the mountainous regions. Have I emphasized enough about this protective barrier?

RUSK: Yes, that is clear. What would you think of the Americans dealing with five, six or seven provincial governors, or of a single Chinese coordinating authority in that area?

CHENNAULT: I would much rather plan on dealing with a central authority. There would be considerable danger in dealing with provincial governors; they might not follow a unified plan after they got troops, planes, etc.; you can keep a central authority lined up. I would much rather the Chinese take care of domestic political problems and we take all steps to keep the plan together at the top.

RUSK: What individuals could carry the plan at the top?

CHENNAULT: Only one man—Chiang Kai-shek; maybe Li Tsung-jen, Pai Chung-hsi, or Chang Chun. Most of them could do it if Chiang Kai-shek gets out of China. Only as a last resort would I consider dealing directly with provincial governors and leaders.

RUSK: Does Li Tsung-jen have stature to do this?

CHENNAULT: He was very good during the war along the Huai River; we gave him full air support for the first time in the war.

RUSK: How much time do we have in China?

CHENNAULT: There is no way to estimate how fast communists will spread south and southeast; a rough estimate is that we probably have six months to defend this western zone; three months to aid the defense of Kwangtung.

RUSK: Could some of this be moved in?

CHENNAULT: If we send a military mission in, yes, and talk to Chiang Kai-shek. He thinks he can hold the strong fortress he already

has on Formosa. Communists will send in trained men and they will work on the native population which is anti-Chinese.

RUSK: If you get these governors together and ask them to select a chairman of the board, whom would they select?

CHENNAULT: Chiang Kai-shek, if he is still in China, will certainly be first nomination. He has learned a lot during the past year and would be far more responsive than six months ago.

RUSK: Can you leave Tibet out?

CHENNAULT: Yes, they are not good soldiers; they want to be left alone.

RUSK: Would you have American military mission people with units in the field or just to assure supplies?

CHENNAULT: I would do like Wedemeyer and maintain top-level staff with the government and supervise operation of all transport or quartermaster, food, clothing, medical supplies, communications. He had American personnel all the way down through the company level. He watched everything that was done with our equipment and planned all fighting. That is the way I recommend again; American personnel right down to the company. It won't take a great many men because of the relative small size of the area. As long as we adopt a limited objective, there is no real danger of getting further involved. We don't have to take the offensive and we could limit it to that zone only; don't consider grand offensive of all of China.

RUSK: That is an interesting line of thought. What are your plans now?

CHENNAULT: I'm going to Louisiana and will be back about the end of this month.

RUSK: Will you talk to some of the Joint Chiefs of Staff?

CHENNAULT: Yes. This is really a novel idea, to start with Outer Mongolia and work down south. They will fight; there is plenty of room to do it. This area remained loyal during the war with Japan.

RUSK: We greatly appreciate your coming in and we will give this some close thought and hope to see you later this month.

893.24/5-1149

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 11, 1949.

Mr. Ford⁸⁸ called this afternoon by appointment and presented the attached document,⁸⁹ which he explained was a paraphrase of a telegram from the Foreign Office, regarding the question of supplying

⁸⁸ J. F. Ford, First Secretary of the British Embassy.

⁸⁹ Not printed.

arms to China. As stated in the attached document, the British Government is considering the placing of a complete ban on the supply of arms and equipment (including aircraft) to all consignees in China, including the National Government, and has instructed the British Embassy to ascertain the views of the State Department in this regard.

I informed Mr. Ford that shipments of military materiel under the \$125 million grants were still going forward and said that, for his confidential information, roughly \$30 million of materiel remained to be shipped. I also informed him that we were continuing to issue export licenses for military equipment purchased by the Chinese Government in this country.

Mr. Ford indicated that this appeared to furnish an ample reply to the request of the Foreign Office.

893.00/5-2549 : Telegram

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

WASHINGTON, May 25, 1949—7 p. m.

638. Gen Chennault has plan which he has made available to Dept for US aid in establishing zone running from Ninghsia to Yunnan which could be defended against Commies and would prevent spread Communism into Southeast Asia. Belt would include Ninghsia, Kansu, Tsinghai, Shensi, Szechuan, Kweichow, Yunnan and west part of Kwangsi. He proposed sending US mil mission to China charged with procurement, distribution, handling mil aid supplies for Chi armies in this belt and US mil advisers for training Chi armies and planning tactics, with US mil personnel down to company level. Chennault believes terrain makes this zone defensible against Commie attack, that predominantly Moslem population northwest provinces bitterly opposed to Communism and that sizable mil forces exist in parts of areas indicated. He proposed area be supplied by Chi civil airline transports now in operation from bases south China or Indochina and envisaged continuation ECA aid program these areas.

Comments Emb and Emb Office requested.

WEBB

893.00/5-3049 : Telegram

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

NANKING, May 30, 1949.

[Received May 30—10:31 p. m.]

1148. I have discussed with my service attachés Chennault's plan as outlined in Deptel 638, May 25, repeated Canton 239. Our feeling is

that, while plan may have validity in some of its aspects, as a whole it is impractical and of doubtful value to furtherance of US national interests. The prospects of corridor leading from Yunnan to Ningshia remaining available for anti-Communist activity are already slight. Leaving aside southern Shensi and eastern Szechuan which are already seriously threatened by fall of Sian to Communists, the inclusion of Yunnan, which must hold a key position in any such plan, is, according to our information, entirely unrealistic. Lack of control by Nationalist authority in greater portion Yunnan, widespread Communist guerilla activity therein and unreliability of present governor would seem make any plan built around Yunnan as southern outlet to corridor unsound. We do agree impossibility drawn out and effective resistance under Moslem leadership of provinces of Ningshia, Kansu, Tsinghai and parts of Suiyuan. However, developments in this area may also be affected by CCP unwillingness to tackle Moslem provinces militarily as well as by announced determination of Moslem leaders to resist.

It is conceivable that it would be to US national interests to support through economic assistance any line of resistance in north central China should clear evidence of will to defend Moslem provinces against CCP political and military encroachment develop within next several months. How economic aid could be delivered to such isolated area would be one of main problems implementation any such policy.

Consequently our conclusions are: (1) No military mission or military advisors or military aid supplies at this late stage of Chinese military developments. (2) Should effective resistance develop in potentially autonomous area of north central China, we could then consider desirability of supporting it economically on basis of its performance and promise. (3) Immediate useful step might be to dispatch small group technicians from ECA mission presently China to Lanchow and areas north to prepare plan for further economic assistance that area if and when required. If considered desirable, ECA mission to north central might include military observers available from service attaché personnel presently south China.

It is noted that *Hsin Hua Jih Pao* May 30 reports without comment Chennault's appearance before Congress early May asking assistance to Kmt for purpose establishing resistance bases in southwest and northwest.

Sent Department 1148, repeated OffEmb Canton 475.

STUART

893.00/6-649: Telegram

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

CANTON, June 6, 1949—3 p. m.
[Received June 7—1:46 p. m.]

Cantel 535. Did not comment Department's 638, May 25 to Nanking, repeated Canton 239, re Chennault plan as thought I had made myself clear on futility further support bankrupt Kmt regime (telCan 285, June 3⁹⁰).

Chennault plan should be profitable commercial airlines, but detrimental interests US. Only way we could justify action suggested would be that it offered prospect alternative Communism. If end result is to be Communist-dominated China, we not only could not justify prolonging suffering Chinese people which would ensue, but would also make Communist task easier by providing them with material to rally racial feeling in support of resistance to foreign intervention.

The conditions that enabled Communists win all North China, despite preponderance materiel and manpower on Nationalist side, still exist, if anything, in exaggerated form. There is complete bankruptcy of leadership in Kmt as exemplified most recently by appointment Yen Hsi-shan, sole surviving warlord, to premiership. Military leadership is the same or no better than that defeated in the North and we could have no assurance that military leaders in zone suggested by Chennault would take our advice any more than did Gimo. From personal observation and from reports of our people in West China, it seems obvious that mass Chinese people those areas cordially detest their present overlords and would welcome any change. They would hardly appreciate our action in maintaining their overlords in power. This is true in areas ruled by the 5 Ma[s]⁹¹ as well as in Szechuan and Yunnan. Although the Ma[s] can be expected, even without help from US, to put up strenuous resistance against Communists, they will not have the support of the people and must inevitably succumb to Communist attack. In Szechuan the leaders are bickering among themselves, distraught at the thought that the Nationalist Government may move Chungking, thus inviting earlier Communist attack, and in Yunnan even the Government having declared complete autonomy is merely waiting to make the best terms possible with Communists. Am convinced Li Tsung-jen and Pai Chung-hsi, the latter having the only good armies in southwest China, will inevitably at proper time make peace with Communists. Li's manoeuvres seem too much of character calculated strengthen his

⁹⁰ Not printed; it repeated the Department's request for comment made in telegram No. 638 (893.00/6-349).

⁹¹ Mohammedan commanders in northwest China.

bargaining position. Kwangtung generals realize resistance Canton impossible and are arranging establish safe haven provincial capital Hainan Island. Gimo sits on Taiwan doing what he can to divert Communist attack some other part China and it is almost openly admitted in Canton that life of government in Chungking will be short; that forces of resistance will eventually rally around Gimo on Taiwan and endeavor survive until what is considered to be the inevitable war between US and USSR.

In other words, disintegration is so far advanced, morale so low and the desire of the people for peace so strong that any effort support continued resistance in West or Southwest China seems doomed in advance to failure.

The cycle is complete. Those inspired young leaders who so successfully led the Kmt to control have grown old and corrupt; have lost the mandate of heaven, and are fleeing for safety abroad or to Taiwan. Their followers for the most part are endeavoring adjust themselves mentally and physically to a Communist regime. The people want peace.

In this situation, our best course, it seems to me, is to let Kmt resistance die a natural death and prepare as best we can for a new and even more difficult era of Communist-dominated China.

Sent Department Cantel 535, repeated Nanking 363.

CLARK

893.24/6-749

Memorandum by the Acting Chief of the Munitions Division (Elliott) to the Deputy Director of the Office of European Affairs (Achilles)

[WASHINGTON,] June 7, 1949.

You will recall that there are pending in the Munitions Division applications submitted by the Chinese Military Procurement Group for import from the United Kingdom into the United States and export from the United States to Formosa involving 85 Sherman tanks (without armament). The Chinese Ambassador, in a note dated April 11, 1949,⁹² has stated that these tanks would be reconditioned in the United States prior to exportation to China. Further, the Chinese Ambassador has stated that these tanks have already been purchased by the Chinese Government from a private concern in England.

⁹² Not found in Department of State files.

The above requests were referred to Eur for opinion shortly after receipt and since that time a number of conversations have been held by officers in MD and Eur with Colonel Li and Mr. E. T. Cummins who is representing Commerce International, the concern in the United States which is planning to recondition the tanks.

Mr. Cummins reported to me, after a conversation he had with you on May 4, that Eur planned to obtain further information concerning the tanks, including an inquiry of the Embassy in London, and hoped to be in a position in the near future to make a recommendation on the licenses requested. Later, inquiry of your office by MD indicated that the problem would be the subject of discussions with Mr. Berkner.⁹³

Although the tanks in question are to be reconditioned in the United States prior to shipment to Formosa, the Chinese are requesting what can be regarded as intransit privileges for material already purchased in the United Kingdom. Two months have elapsed since the Chinese requests were submitted. In view thereof, and the fact that further inquiries have been received from representatives of the Chinese regarding the matter, I would like to urge that Eur's views on this problem be made available to MD at the earliest possible moment.

893.24/6-749

The Acting Chief of the Munitions Division (Elliott) to the Director of the Logistics Division, Department of the Army (Larkin)

WASHINGTON, June 7, 1949.

MY DEAR GENERAL LARKIN: The Department understands that the Chinese Government is interested in purchasing from the United States Army through the Commerce International Corporation 156 landing vehicles, Mk. IV, LVT. The Department understands further that these vehicles are located in Hawaii and are earmarked for scrapping in accordance with Army regulations.

The Department has no objection to the sale of these vehicles to the Chinese Government through the Commerce International Corporation, subject to the determination of the Department of the Army that such a sale is legally possible.

It is requested that the Department be informed if and when this sale is consummated so that the necessary export license may be issued.

Sincerely yours,

JOHN C. ELLIOTT

⁹³ Lloyd V. Berkner, Special Assistant to the Secretary of State.

893.50 Recovery/8-1549

*The Chinese Ambassador (Koo) to the Secretary of State*⁹⁴MEMORANDUM ON PROPOSED MILITARY AID PROGRAM FROM U.S.A. FOR
CHINAI. *Purpose of the Program*

The object of the proposed program of military assistance is to provide the National Government of China with the most essential military supplies and services so as to enable its armed forces to continue their fight against the Communist aggression. It is of especial importance that the advance of the Communist armies in the areas which are still under the control of the Government should be stopped. The object is also to provide time for the establishment and consolidation, pursuant to a long-range plan, of bases of operation for the progressive re-occupation of the territories now under Communist control. The present program is, therefore, of a short-term character, and covers a period of six months beginning from September 1949. The cost of the program is estimated at \$287,000,000, with the following breakdown:

1. Military materials for the Chinese Army	\$150, 000, 000
(a) Weapons and ammunition	\$109, 800, 000
(b) Others	40, 200, 000
2. Military materials for the Chinese Navy	22, 000, 000
3. Military materials for the Chinese Air Force	55, 000, 000
4. U.S. dollar costs of silver currency in meeting a portion of the pay and subsistence expense for Chinese troops	50, 000, 000
5. U.S. dollar expenditures for services of U.S. personnel	10, 000, 000
Total	\$287, 000, 000

The Chinese Government today still controls a vast integral territory, including the entire hinterland extending from the Provinces of Suiyuan and Ninghsia in the Northwest down to the Province of Kwangtung in the South of China. In addition, it still holds parts of the Province of Shensi in the North and Hunan, Kiangsi and Fukien in the South as active theaters of fighting. This territory is separated from the great plains of North, Central and East China by a number of mountain ranges and exceedingly rugged terrains and is advantageous for purposes of defense. It constitutes a large base for opera-

⁹⁴ Transmitted in Ambassador Koo's letter of August 15, p. 678.

tions against the Communists. Generally speaking, it was in these chains of mountains that the Japanese army was successfully stopped at the peak of World War II. The whole territory under the control of the Chinese Government today is larger than it held after the Japanese invaders penetrated deep into the interior in 1944. Furthermore, there are the islands of Taiwan and Hainan, which are invaluable to the Government as bases of supply and operations.

Experience gained in the course of the war against Japan indicates that these regions are reasonably sufficient in resources to provide a minimum of the necessities of life for the people. During the last war, an industrial basis, though limited, was built up in these regions capable of meeting a number of special war needs. The people in these provinces are hardy and industrious. They constitute a reservoir of man-power from which most of the troops of the Chinese Army have been recruited. This means that the Government troops are now fighting on their home soil.

The anticipated zones of operation, though a matter of necessity rather than of choice, offer a measure of advantage on account of their mountainous terrain. When properly defended, they also form a barrier against the Communist advance to the south in the direction of China's neighbors.

II. *Requirements of the Chinese Army*

The Chinese Army Ground Forces now consist of ninety-four (94) divisions, including those under training. Many of the divisions are not up to full strength on account of their previous losses, but those deployed in the combat zones are being brought up to strength through replacement from training centers in Taiwan, Szechwan and elsewhere. The present aid program calls for a supply of new weapons for twenty (20) divisions, six-months' supply of small-arms ammunition for forty (40) divisions, and moderate quantities of artillery ammunition, owing to the fact that there still remain in stock a quantity of artillery shells.

It should be added that the required supply of small arms and their ammunition is to supplement the production of Chinese arsenals.

The total amount of military materials required in this program for the Chinese Army is estimated at \$150,000,000. Of this sum, \$109,800,000, or 70%, is for weapons and ammunition. The cost of weapons and ammunition are calculated on the basis of the 1945 SNL⁹⁵ prices. In the event that a substantial portion of such items could be made available from United States surplus stocks at reduced prices, there would be a reduction in the estimate.

⁹⁵ Standard Nomenclature List.

The balance of the Chinese Army requirements, amounting to \$40,200,000, consists of supplies for the various other services of the Army Ground Forces, such as petroleum products, materials for the arsenals and for the transportation, signal, medical, quartermaster, engineers, and armored corps. With due account taken of the needs for the next six months, and the present stocks, including the supplies procured with the \$125 million China Aid funds, the apportionment of this balance is as follows:

1. Arsenal raw materials	\$ 8,000,000
2. Petroleum products	8,500,000
3. Transportation—vehicles, parts, etc.	9,100,000
4. Armored Force—spare parts and tools	2,400,000
5. Signal—equipment and supplies	4,500,000
6. Medical—equipment and supplies	4,500,000
7. Quartermaster—supplies	2,000,000
8. Engineers—equipment and supplies	1,200,000
	<hr/>
Total	\$40,200,000

Further details of the requirements of the Army Ground Forces Program are given in Appendix I.⁹⁶

III. *Requirements of the Chinese Air Force*

The first-line strength of the Chinese Air Force has been on the basis of Eight and One-third Groups as follows:

1. Four (4) fighter groups
2. Two (2) transport groups
3. One (1) heavy bomber group
4. One (1) medium bomber group
5. One (1) reconnaissance squadron

The present program is to provide for the maintenance of such a strength for a six-month period.

The proposed amount for the requirements of the Chinese Air Force under this program is estimated at \$55,000,000, with the following breakdown:

1. Aircraft, parts and accessories	\$43,705,000
2. Petroleum products	5,587,000
3. Bombs and ammunition	5,708,000
	<hr/>
Total	\$55,000,000

The amount required is calculated on the basis of the World War II U.S. standard prices. If surplus equipment and materials are available at lower prices, there would be a reduction in the dollar cost of the program.

⁹⁶ Not printed.

Further details of the Air Force Program are given in Appendix II.⁹⁸

IV. *Requirements of the Chinese Navy*

At present the Chinese Navy has three squadrons in active service, consisting of three destroyers, six destroyer escorts, thirty-four landing ships and crafts and seven transports with a number of mine-sweepers, gunboats and auxiliary ships. Allocations from the special grant under the China Aid Act of 1948 have enabled the Chinese Navy to keep its ships in good condition. To maintain these ships in operable condition and to enable them to discharge their duties with efficiency, it is estimated that the program for the Chinese Navy would require \$22,000,000, with the following breakdown:

1. Weapons and ammunition	\$11,112,500
2. Petroleum products	3,500,000
3. Ship outfittings and accessories	1,081,000
4. Repair and construction materials	1,206,500
5. Ship engine spare parts	1,500,000
6. Signal equipment and parts	3,400,000
7. Medical supplies	200,000
Total	<hr/> \$22,000,000

Further details of the Navy Program are given in Appendix III.⁹⁸

V. *Need of paying the troops with silver dollars to raise their morale*

In addition to the purely military supplies for the three branches of the armed services as indicated above, there is an essential need of silver dollars with which to pay the combat forces and to provide for their provisions. Experience has shown that payment in hard currency has greatly increased their fighting spirit as was evident in the battle of Shanghai last May. This emergency measure of paying the troops in silver is therefore as important as the supply of weapons and ammunition.

The present monthly budget of the Government is estimated at 45 million silver dollars, of which amount the pay and provisions for the troops require about 30 million silver dollars. Because of the striking drop of revenues as a result of the changed situation, the monthly deficit is between 30-35 million silver dollars. The Government has been meeting this deficit by drawing upon its limited foreign exchange reserves. This budgetary situation is explained more fully in the Memorandum on economic aid.⁹⁹

For the next six months, this item for the troops will amount to about 180 million silver dollars. It is equivalent to about US\$108

⁹⁸ Not printed.

⁹⁹ *Post*, p. 682.

million. In order to relieve the Chinese Government of this severe drain on its exchange reserves, it is proposed to include a little less than half of this amount, or US\$50 million, as an item of military aid in this program. The resultant benefit, both material and psychological, will be great and far-reaching.

VI. *Cooperation of United States representatives and other personnel*

In order to ensure the effective use of the aid furnished under this program, the Chinese Government desires to secure the cooperation of United States representatives and other United States personnel for specialized services. The need of qualified experts in the various spheres of the military organization is very great and their assistance and cooperation will be most welcome. For these purposes, an amount of \$10,000,000 is included in this program to meet their various expenses.

VII. *Distribution of existing supplies*

The existing supplies in the hands of the Chinese Government consist mainly of the remainder after issue of the supplies obtained under the \$125 million China aid funds and the limited stocks of local production of the arsenals in West China.

Of the supplies under the \$125 million China aid, about 85% has been shipped to China with the remaining 15% to be shipped in the near future. Of this 85% which has arrived in China, about two-thirds has already been issued to the field forces and services. As to weapons and ammunition, nearly all the weapons and about half of the ammunition have been distributed to the forces in the field.

These above-mentioned stocks form the only available reserve of supplies for the armed forces at the present time. As soon as additional supplies under the proposed program are assured, the Government will be able to proceed with the immediate distribution of these stocks for the fighting forces at the front.

WASHINGTON, August 15, 1949.

Executive Secretariat Files

Memorandum by the Under Secretary of State (Webb) to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] August 19, 1949.

Subject: Implementation of NSC 34/2¹

Pursuant to NSC Action No. 123, October 6, 1948, as amended, the following progress report on the implementation of NSC 34/2,

¹ February 28, p. 491.

"United States Policy with Respect to China" is submitted for the information of the Council:

Paragraph 12. No non-Communist regime or regimes fulfilling the conditions established in paragraph 12 have emerged in China. Consequently, no new programs of military or political support have been formulated. Economic and military assistance to the Chinese Government authorized by Congressional action under the China Aid Act of 1948 and the April 14 [19], 1949 amendment² thereto is continuing.

Paragraph 13. In so far as feasible, active official contact is being maintained with all elements in China. Contact with the Chinese Government is maintained through regular diplomatic and consular channels. Contact with private Chinese leaders in Chinese Government controlled areas and, in so far as feasible, in Chinese Communist controlled areas, is maintained by American consular and diplomatic establishments in China. Contact with Chinese Communist officials has been restricted and rendered difficult by the Chinese Communist attitude that American consular and diplomatic officials have no official standing. This attitude has in practice rendered higher Communist officials inaccessible. Owing to intolerable restrictions placed by the Chinese Communists upon our Consulate General at Mukden, that office has been closed and the American staff is being withdrawn.³

Paragraph 14. The United States Government continues to recognize the National Government in China.

Paragraph 15. The Department's White Paper on China⁴ constitutes a public reaffirmation of the basic principles governing our relations with China.

Paragraph 16. Every effort is being made to maintain our cultural and informational program, both official and private, at the most active feasible level. Within areas of China under control of the National Government the USIS and related programs are being carried actively forward. Within areas controlled by the Chinese Communists these programs are being carried forward within the limits imposed by those authorities. The Chinese Communists have recently ordered terminated USIS activities in Shanghai, Hankow, Nanking, Peiping and Tientsin. Restrictions by the Chinese Communists and uncertainty regarding their attitude have caused private American groups engaged in cultural and informational activities within areas controlled by the Communists to be extremely circumspect in their activities. As other

² 63 Stat. 50, 55.

³ For correspondence regarding the Consulate General at Mukden, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

⁴ *United States Relations With China* (Washington, Government Printing Office, 1949); for correspondence on this subject, see pp. 1365 ff.

informational and cultural channels become progressively restricted, the importance of the Voice of America program increases. Recently the Voice of America program in Mandarin has been doubled and new programs in English and Cantonese have been established. Every effort is being made to increase the effectiveness of the programs in China.

Paragraph 17. One of the objectives of the Voice of America and other informational programs within China is to foster possible rifts between Chinese Communists and the USSR by emphasizing the imperialistic aims of the USSR in China as evidenced in Manchuria, Sinkiang, and Mongolia and by destroying the fiction that the USSR is the champion and protector of nationalism. Means are being sought, as for example in NSC 41,⁵ regarding trade policy with China, for exploiting possible rifts between Chinese Communists and the USSR. As the Communist organizational structure in China emerges more clearly, opportunities will be sought to create and exploit any rifts between the Stalinists and other elements in China.

JAMES E. WEBB

893.50 Recovery/8-1549

The Secretary of State to the Secretary of Defense (Johnson)

WASHINGTON, August 23, 1949.

DEAR MR. SECRETARY: Attached is a copy of a letter from the Chinese Ambassador, dated August 15, 1949,⁶ with accompanying memoranda, requesting United States military and economic assistance.

These memoranda raise certain specific questions which require consideration. In general they may well be included in the study which the National Security Council, on your initiative, is making of the broad aspects of policy in Asia. They would also be involved in the review of our foreign policy in the area which, as you know, the Department of State with the assistance of a small group of consultants has already undertaken. In view, however, of the context in which these questions are raised by the letter from the Chinese Ambassador, it would be helpful if the Department of State could receive as soon as possible the comments of the National Military Establishment on the Chinese proposals for a program of further military assistance.

Sincerely yours,

DEAN ACHESON

⁵ February 28, p. 826.

⁶ *Post*, p. 678.

893.00/8-2449

*Memorandum by Mr. John P. Davies, Jr., of the Policy Planning Staff*⁷

[WASHINGTON,] August 24, 1949.

The Problem

To devise a decisive form of pressure which can be exerted on the Chinese Communists to compel them to respect the United States and moderate their behavior.

Analysis

1. Never in the history of U.S. relations with China has the predominant regime of that country viewed us with such uncompromising enmity. Never has the prestige of the United States in China been so low. And never have we been so apparently at a loss to make our influence felt in China.

2. Chinese Communist malevolence toward the U.S. and our loss of prestige are the product of a number of readily recognizable factors:

a. Communist ideology, by the terms of which we are branded as a hostile force;

b. The fact that we allied ourselves with the Nationalists and are therefore open enemies of the Communists in the Chinese civil war; and

c. Soviet intrigue and incitement of the Communists against the U.S.

3. But there is another factor which has thus far not been adequately examined in this Government. That is the mistaken evaluation by the dominant faction in Chinese Communist leadership of international realities and power relationships in the world. The Communists' victory over the Nationalists armed with American weapons, their humiliation of the British Navy in the lower Yangtze and their ignorance of the real significance of air power have resulted in the thesis that the U.S. is a "paper tiger". The U.S.S.R. certainly has no interest in disabusing the Communists of this mischievous fancy.

4. For our part, it must be admitted, we have done little to belie the role of "paper tiger" attributed to us. Such economic controls as we have instituted have been overshadowed by the Nationalist blockade of Communist China. And in any event, economic measures lack the quality of sharp and concentrated impact; their effect is felt gradually and in a diffused form.

5. As for military measures, we have quite rightly rejected resort to the traditional forms of armed intervention. The mishap of HMS

⁷ Notation by the Chief of the Division of Chinese Affairs (Sprouse): "Maybe I'm old-fashioned, but this has to be read to be believed."

Amethyst marked the end of the era of gunboat diplomacy. The day of Boxer expeditions is also past; the landing of troops these days represents a commitment of prestige and strength which, in the case of Communist China, would be most unlikely to serve any practical purpose and which once committed would constitute a continuing drain of dangerously indefinite proportions and duration.

6. All in all, this is a risky and explosive combination. It is one in which initiative lies in the reckless hands of the Chinese Communists. Unaware of power realities in the world and uncurbed by any manifestation of effective counter-force, fanaticism can feel free to engage in the dangerous game of mounting provocation.

7. The remedy to this intolerable state of affairs lies in our finding, if they exist, hitherto undiscovered means whereby we can bring overwhelming pressure to bear on the Chinese Communists, in finding these means to resolve upon their use where necessary, and finally making it known to the Communists that we have both the ability and the will to do compelling damage to their vital interests.

8. In seeking these means of military pressure, it is well to have clearly in mind what our objectives would be in so employing our armed strength. Obviously, it would be utterly quixotic for us to embrace as an objective the unconditional surrender of the Chinese Communists. It would be only somewhat less unprofitable to create a formal state of war with the Chinese Communists. The only feasible aim is a limited and flexible one—coercion by punitive action or the threat thereof. It is evident that such coercion should be effective and enhance rather than detract from our prestige. The punitive action should be more costly and painful to the Communists than to ourselves. For political reasons it should do the minimum possible personal damage to the Chinese people. Finally, it would appear to be the part of good sense in applying such coercion to avoid, so far as feasible, contributing to a further consolidation of Soviet influence and control of China.

9. Given these objectives, let us explore what forms of punitive action we might take. We have written off as impracticable the traditional measures of military coercion; gunboats and small-scale expeditionary forces. We have not, however, examined the possibilities of utilizing air power, including naval air, as a potential punitive instrument. The advantages of employing air power against the Chinese Communists are several.

a. It can be brought to bear with comparatively great force and flexibility against not only coastal areas but the interior of China.

b. The Chinese Communists cannot, so far as we now know, seriously counter air attack.

c. The use of air power involves the minimum tying down of our prestige; air power does not commit us to holding fixed positions.

10. Air power is, of course, a weapon of broad utility, broader than the selective aims of coercion require. As our aim would be the coercion of Communist leadership, not the mass destruction of civilian morale and lives, air operations employed in total warfare, such as saturation bombing of cities, are excluded at the outset.

11. The concept of the air arm as an implement of coercion narrows down therefore to highly selective bombing of such installations as arsenals, railroad roundhouses and factories. To minimize further the unavoidable damage which would be done to the civilian population, warning would have to be given of impending attacks and rationalization of our military action provided the Chinese people through propaganda media.

12. If the total effect of this punitive potential is calculated to exceed by an overwhelming margin the profit which the Communists could gain through continued provocation in the face of such retaliation, then it is possible that we have at hand the instrument which we seek. This basic question must, of course, be subjected to rigid scrutiny and evaluation by the Military Establishment and, in the light of the NME's findings, reviewed by the Department of State.

13. Meanwhile, it may be helpful, proceeding on the assumption that the sum total of our punitive capability is a compelling force in our relations with the Chinese Communists, to examine some of the implications of this concept of coercion through a selective use of air power. In these circumstances it would become possible for us to establish a graduated scale of punitive action. We could tailor our reprisal to the provocation, knowing that in a contest of mounting provocation and retribution we could in the end win out. This means a maximum economy of force.

14. But what is more important, we could by apprising the Communists of our capabilities and resolve create the possibility of preventing rather than attempting to cure crises in our relations with them. This would involve a secret approach to the Communist leaders (so as not to stiffen their resistance) along the following general lines:

a. We consider that we have put up with enough misbehavior on their part;

b. We do not feel that their interests or ours will be served by their laboring under any misapprehensions regarding means at our disposal for bringing our displeasure home to them;

c. They are, therefore, advised of a graduated scale of punitive air action which we can take against their military and industrial bases in China;

d. We will not hesitate to take these punitive actions in accordance with the degree of provocation given us; and

e. We will feel free to resort to these measures so long as their regime is not recognized by us, which will be so long as their international behavior is that of bandits and blackmailers.

15. It might be desirable in this connection to consider the possibility of concentrating punitive operations, at least initially, on installations in Manchuria rather than in China Proper. This suggestion is based on the theory that, if we are to embark on attritive action, we can most profitably direct our attention to those arsenals and factories which are of the greatest importance to Soviet as well as Chinese military and economic power. Such action or the threat thereof would perhaps also serve to bring into play Soviet admonitions to the Chinese Communists to cease or refrain from provocation.

16. The foregoing suggestion raises one of the principal objections which can be advanced to the concept of coercion through air power. Very legitimately it can be inquired where such punitive action would lead to. Would it involve us in incidents and possibly even conflict with the U.S.S.R.? The answer to this question is that such punitive operations might very well do just that. We might, particularly if we engaged in air attacks on Manchurian installations, find the U.S.S.R. giving vigorous but disguised air support to the Chinese Communists along the pattern of the Spanish Civil War. This would undoubtedly make our task more difficult and hazardous. But at the same time, it must be remembered that the proposed punitive operations are quite dissimilar in nature to the situations in which the Axis and the U.S.S.R. became involved in Spain. These would be hit-and-run, attritive raids and not attempts to capture and hold positions or impose a certain form of government on the country. Finally, the question must arise someplace in our relations with the U.S.S.R.—and it will probably be in Asia—whether we can afford to follow indefinitely a policy of avoiding risks of conflict with them at whatever the cost to us. If supreme caution is to be our guiding rule with the U.S.S.R., then we had best not embark upon a course of military coercion in China.

17. Another objection which may be raised relates to some 2,500 American citizens now residing in Communist China. It may be assumed that if we take military action of the nature described in the preceding paragraph, without reference to our hostages in Communist hands, these Americans will be made the butt of Communist vengeance. In such circumstances, it is not beyond the realm of possibility that many or all of them would either be executed by the authorities or massacred by mobs. This consideration is a major deterrent to our drifting into an exchange of reprisals for provocation. It is the strongest argument, however, for making our capabilities

and resolve known to the Communist leadership as a protection to the Americans now at their mercy. Americans in Communist China are likely to be in less danger if the Communist leaders realize that harm done them will be prohibitively costly than if no sobering restraint is placed on Communist caprice.

18. Finally, there are considerations of our obligations under the U.N. Charter, our position in the international community and the attitude of the American public toward a policy of military coercion. These are practical questions regarding the circumstances under which we would be justified in resorting to a punitive course. Bombing does not have a good name in world public opinion. Even though it might be directed at acceptable installations, there would unavoidably be a certain amount of damage to civilian property and loss of civilian lives. This would not be condoned in the public mind unless the provocation were generally regarded in the category of an outrage. Direct Communist aggression against Hong Kong might provide international sanction for coercion through selective bombing. The murder or execution of Americans would probably provide a similar justification. These considerations then are a strictly limiting factor on what we could do by way of coercion. It would appear that we could not embark upon such a course, even on a limited scale, until the Communists have so acted as to justify our retribution along the lines of this paper.

Recommendations

19. The NME should be requested to examine the concept of coercion through selective use of air power in our relations with the Chinese Communists and having done so to make its conclusions known to the National Security Council for further consideration.

Executive Secretariat Files

Memorandum by the Under Secretary of State (Webb) to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] August 24, 1949.

Subject: Study of Chennault Plan by Joint Chiefs of Staff.

In connection with the survey of Far Eastern policy which is now being carried on in the Department of State, it will be necessary to re-examine and to estimate the feasibility and effectiveness of further United States military assistance to non-Communist China. As you know, General Chennault has presented in testimony before the House Foreign Affairs Committee⁸ and in the public press a detailed plan for

⁸ Apparently presented in Executive Session; for public hearings, see *Mutual Defense Assistance Act of 1949: Hearings before the House Committee on Foreign Affairs, 81st Cong., 1st sess.* (Washington, Government Printing Office, 1949).

such assistance which he believes would be both feasible and desirable.

It would be greatly appreciated if the appropriate agencies of the Department of Defense would examine the Chennault Plan with a view to presenting to the National Security Council their judgment as to whether military assistance of the character described by General Chennault could be delivered within sufficient time and in sufficient volume and could be utilized with sufficient effectiveness by the recipients, whether the National Government or provincial authorities, as to be likely to deny to the Communist forces those parts of China still free from their control. Any comments by the Joint Chiefs of Staff concerning the military means which they consider would be necessary to achieve this objective, regardless of whether or not dealt with in the Chennault Plan, would of course be most helpful.

JAMES E. WEBB

893.00/8-2549 : Telegram

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

WASHINGTON, August 25, 1949—11 a. m.

TelCan 620. Re Cantel 1002 [1012] of Aug 23,⁹ pls ascertain any further details obtainable re: Military possibilities described by Li and Pai. Specific info on reliable troops available, present supply situation arms, ammunition, food, etc; Pai's plans for further operations and his estimate minimum requirement arms and silver for continued resistance. Also request your comments re: Probable effectiveness such assistance and time factors involved. Request for above info should be understood by Li and Pai not as implied commitment that assistance will be forthcoming but as desire fully to understand what was reported Cantel 1002 [1012]. For urinfo only, we may wish to send qualified officer to assess possibilities effective resistance if firm will to resist is demonstrated.

ACHESON

893.20/8-2849 : Telegram

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

NANKING, August 28, 1949—7 p. m.

[Received August 29—9:42 a. m.]

1922. ReDeptel 620, August 25 to Canton, repeated Nanking 1012. Li Tsung-jen [and] Pai Chung-hsi military capabilities to organize and continue resistance in SW against Commie domination of all China must be considered limited, in light of past performance.

⁹ Vol. VIII, "Political and military situation in China", chapter VI.

Favorable factors: (1) both are well-known among Chinese civilian and military personnel; (2) Pai as field commander demonstrated ability to defend line of Yangtze River until Nationalist troops on his east flank withdrew permitting Commies cross river and outflank his forces; (3) Pai when outflanked and threatened by forces of second and fourth Red field armies executed orderly successful withdrawal from Wuhan area to Hengyang areas; (4) Pai's troops have recently demonstrated limited offensive capabilities; (5) Pai has under his command 300,000 to 350,000 troops. Of these minimum of three Kwangsi armies, according to Pai's own statement, are absolutely loyal; (6) terrain in SW China is favorable for fighting guerrilla action.

Unfavorable factors: (1) neither Pai nor Li have demonstrated aggressive leadership either militarily or politically necessary for successful revolution or counter-revolution. They have failed to eliminate Generalissimo from politico-military scene and seize available Nationalist wealth and military supplies necessary successfully to combat Commies; (2) Pai's troops to date have fought mostly defensive action against Commies and their ability to launch real offensive still remains to be demonstrated; (3) in event of actual split with Generalissimo it is possible that only Pai's three Kwangsi armies or force of 120,000 troops would remain to fight underpaid Shanghai [*sic*] leadership; (4) the area to which Pai would be forced to withdraw is already invested [*infested?*] with Commie bandit groups who operate in (a) Yunnan-Kwangsi, (b) Kwangtung-Kwangsi and (c) Kwangtung peninsula areas, (5) area to which Pai would be forced to withdraw is capable of being cut off from SE, thus presenting problem for expensive and perhaps prohibitive air supply to maintain his forces. Conclusion: If well-supplied, Nationalists estimated that Pai's forces could maintain themselves against superior Commie strength for maximum period of one year.

So long as proposed stronghold remains area of more or less static defense, effect on overall Commie military effort will be unimportant. Military consolidation of other Commie areas will not be affected since very little redistribution will be required. It is estimated that during time required to set up Pai's stronghold and obtain sufficient supplies to constitute threat to Commies, latter will have completed their present offensive and be in position to regroup their southern forces both for purpose of containing or attacking Pai and for sweep down coast in order to deny him use of suitable supply harbor. In latter connection, Commies will probably make use of valuable amphibious operational experience gained during successful assault on Miao Tao group and current attack on Chou Shan group.

In attempting to determine advantages and disadvantages of further military assistance to Nationalist forces on mainland, following political considerations suggest themselves.

On attractive side:

(1). Effective military resistance in southwest China, even for relatively short period of one year, would obstruct southward sweep of Communism and give countries of SE Asia that much more time to strengthen their common defenses.

(2). Area of free China able successfully to resist for next year would have encouraging effect on potential resistance groups within Commie China; would supply through clandestine means guerrilla leaders and arms to active resistance pockets within Commie China; would deal blow to prestige of PLA¹⁰ and generally weaken Commie authority in newly won areas which they are attempting to consolidate.

(3). If spirit of resistance and forces of liberalism are to be kept alive in Commie China, help and inspiration must come during first year and before CCP¹¹ has had two or three years in which to consolidate its power and eliminate all political-military resistance.

Contrary considerations are:

(1). Static defense of two or three southern provinces for temporary period does not lead to any positive goal. It is at best holding operation providing time. Unless there is unforeseen and rapid deterioration in present Commie position, there is little likelihood that offensive action against Commies could be seriously contemplated except for isolated guerrilla activities.

(2). Open hostile attitude toward CCP would unquestionably eliminate now and for some years to come any question of establishment relation with new government in Peiping.

(3). Renewed military aid to Nationalist leaders would mean rapid extinction of all American interests in Commie China. Before instituting such policy all Americans should be evacuated from Commie areas.

(4). Policy of overt assistance to anti-Commie military forces would probably strengthen rather than weaken CCP's ties with Moscow.

(5). Overt interference in China's civil war at this late stage would add renewed fuel to Chinese chauvinism and renewed support to CCP propaganda.

(6). Any group which must depend for its continued existence upon foreign aid is unlikely to prove savior of China. When indigenous resistance group can find means for its support among masses, has proved its ability to exist independently and expand its influence, only then can foreign assistance be effective.

¹⁰ People's Liberation Army (Communist).

¹¹ Chinese Communist Party.

(7). Renewed military assistance to Nationalists would probably be greeted with disapproval by influential political groups in SE Asian countries who are already influenced by Commie propoganda and suspicious of our motives.

(8). Our western allies would undoubtedly disapprove and attempt to disassociate themselves further from us in any Communist front Far Eastern policy.

(9). Military assistance to China would siphon aid away from Western European countries where exist effective instruments for resistance to Communism.

On balance it would appear that, even if Pai were successful in holding out in Kwangsi with American military aid and advice for next year, the most optimistic estimate of benefit deriving from such resistance would be outweighed by resultant adverse effect on overall US foreign policy.

Sent Department 1922, repeated Embassy Canton 806.

JONES

033.1100/9-1049

*Memorandum of Conversation, by Mr. Allen B. Moreland, Department of State Representative With the Huber Congressional Committee on Far Eastern Tour*¹²

[Tokyo,] September 5, 1949.

Subject: General MacArthur's Briefing of Huber Subcommittee.

Participants: General MacArthur
 General Almond
 General Fox

Congressmen: Huber
 Burnside
 Deane
 Riehlman
 Lovre
 Mr. Moreland
 Mr. Young
 Major Thompson

¹² Copy transmitted to the Department by the Acting Political Adviser in Japan (Sebald) in his covering despatch No. 625, September 10; received September 20. In a memorandum of September 27 to Livingston T. Merchant, of the Office of Far Eastern Affairs, Marshall Green, of the Division of Northeast Asia Affairs, stated: "Of immediate interest to FE is the attached despatch from POLAD, Tokyo, enclosing a résumé of General MacArthur's remarks on China to the 5-man Huber Congressional Committee which has been visiting Japan. General MacArthur sets forth a four-point program for crushing the Chinese Reds."

For comment by the Director of the Office of Chinese Affairs, see memorandum of October 20, p. 558.

General MacArthur was asked what he thought was needed in China. His response was in substance as follows:

The basic objective of Soviet policy for generations has been to acquire warm water ports. This policy for the most part has been directed toward the Mediterranean but now they see the possibility of a much larger gain. It is apparent now that they are driving for the warm waters of the Indian Ocean. If they succeed they will have in their hands all of Asia and the Mediterranean, the continents of Africa and Europe will be flanked. This will leave North and South America completely isolated.

Relatively little effort will be required now to turn the tide in China but the longer we wait we will find difficulties mounting in geometric rather than arithmetic proportions. The communist forces are grossly overrated. Evidence of their weakness are slowness of their advances, the administrative and logistic difficulties which are inherent in their situation.

Chiang is surrounded by corrupt officials including corrupt generals. The Generalissimo is a highly intelligent individual but knows nothing of the art of war. The Generalissimo has, however, a driving determination and strength of character which makes him a natural leader.

If four things are done the tide can be turned. It involves hitting the Reds where they are weakest, namely in the air and on the sea. If these things are done immediately the situation can be saved:

- a. Make a ringing declaration that the United States will support any and every one who is opposed to communism;
- b. Place 500 fighter planes in the hands of some "war horse" similar to General Chennault;
- c. Give volunteers the right to join such a fighting force without penalty;
- d. Assign surplus ships to the Chinese Navy sufficient to blockade and destroy China coastal cities.

Since the Reds have no air protection and sea power this lead to their weakness would be devastating to them. The effect on morale on the Reds by unprotected strafing of ground forces would break their will to fight. If the Reds start losing the Chinese people will inevitably switch to the winning side.

When asked whether or not such action would precipitate a general war with the Soviets, the General stated that there was a certain amount of risk involved but he feels that the Soviets are powerless to conduct full-scale operations on that front.

In regard to Korea the General said substantially as follows:

South Korea is in no danger of being overrun by North Korea. The Kremlin has South Korea outflanked and knows that eventually

it must go the way the continent of Asia goes. As long as South Korea is not a threat to North Korea no action will be taken by the Kremlin to absorb it as there would be nothing to gain by taking it over. However, if South Korea tries to take over North Korea retaliatory measures could certainly be expected. If the United States by default fails to support South Korea the consequences will be most devastating to the United States interests.

The General stated that great strides had been made in Japan during the Occupation in promoting democratic ideals and institutions. He further stated that it is fundamental American foreign policy that we should maintain our defensive installations in the Pacific and that Okinawa is the key to our system of defense in the Pacific.

ALLEN MORELAND

893.00/9-649 : Telegram

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

CANTON, September 6, 1949—6 p. m.

[Received September 7—9: 12 a. m.]

[Cantel] 1072. Re telCan 620, August 25. Office of President Li on September 2 provided Embassy with "outline of plan of warfare prepared by senior officers of Central Chinese Military Government office August 31" and a chart listing by areas resistance forces behind Communist lines and number weapons possessed by each.

Foreword states Central Chinese Military Government has jurisdiction over Hunan, Anhwei, Hupeh, Kiangsi, Hunan, Kwangsi, East Szechuan and South Kweichow, of which first four appear to have fallen completely into Communist hands. "However, except for important lines of communication and large cities, remaining majority of villages and towns are still held by our armed farm population and guerrilla forces."

Pian in brief apparently considers South Kwangsi as main base and sources of supplies. Favorable terrain in West Hupeh, West Hunan, South Hunan and South Kiangsi, with their mountains and long rivers, forms outer defense line. Main body to concentrate east and west of Hengyang. Strong guerrilla bases to be maintained these areas with regular troops operating with local militia, and all operations to be supported by guerrilla units already active in Hunan, Anhwei, Kiangsi and Hupeh. Any large scale Communist attack would bring into action Nationalist forces in Szechuan, Kweichow, Kwangsi and Kwangtung.

Propaganda material to be air dropped in hope of causing defections from Communist forces.

Use guerrilla bases to form universal intelligence network.

Prepare for large scale counter-offensive by forming 10 new armies within next 6 months and coordinating all forces in Nationalist areas with guerrillas. As Nationalist forces advance they will in recaptured areas "strengthen popular organizations, root out Communist elements, organize local militia and establish strong local governments". Counter-offensive plan has series of objectives carrying it to Lunghai railway.

Plan includes several maps and charts showing present military situation south China, proposed counter-offensive, organization of Pai's command, and organization of guerrillas.

Claim total 500,000 men in guerrilla units either behind Communist lines now or moving into Communist areas. Main groups: SE area 50,000; Shantung 20,000; Hunan 90,000; Chahar 30,000; Anhwei 85,000; Hupeh 50,000; Chekiang area 40,000; West Suiyuan 50,000; and lesser forces in Liaoning, Hupeh, Fukien, Shansi, Kiangsu, Hunan and Kiangsi. About one-third are said to be armed.

Comment on "outline of plan": It was obviously hastily put together; omits vital features such as estimated requirements, sources and levels of supply, communications, means of coordination, methods of operations, probable effects of complete break between Generalissimo and Li-Pai groups, etc.; and in general is further demonstration of the unrealistic thinking which has always prevailed in Nationalist circles.

Outline as handed Embassy is labelled "part 1" but no mention was made of additional parts to follow. Embassy intends point out deficiencies and inutility of this document and inquire whether further, more practical staff work is being or is to be done on problem. If not, there seems to be little point in carrying matter further at this time.

Only favorable feature of plan is that it does not ask US for anything. However, would be useful in connection with any logistics section of plan to include statement as to what portion of estimated supplies required must come from outside sources. In anticipation of a complete break with Generalissimo, full consideration needed as to means of receiving outside help without Generalissimo interference. If Pakhoi and Liuchow peninsula are to be only coastal areas open to Pai, he must consider how he is to obtain foreign supplies, without use of (and perhaps even having to evade) Generalissimo navy or air force, what staging areas available, what ships to be used. Then comes problem of how supplies are to reach interior guerrilla areas without air force. Rifles, ammo and silver coins to pay forces are probably major items needed, plus replacement radio parts.

Reference effectiveness of resistance by Pai's forces and guerrillas and time factors involved, Embassy believes any unified action by

various groups not possible. Poor communications, historic individualism and regionalism, and competition among local leaders engineered by rivalry of Generalissimo and Pai groups will probably fragmentize opposition groups. Communists ultimately will be able to concentrate forces against each group adequate to liquidate or disperse them.

On other hand, rear area unrest will continue to slow Communist advance into unconquered areas in conjunction with difficult terrain, long supply lines, etc.

If Pai and other major guerrilla forces are adequately supplied and if Pai adopts guerrilla tactics before coming into major battle with superior Communist forces, we question whether Communists capable of mopping up resistance in one year in spite of possible fragmentization of anti-Communist forces. Supply is the main limiting factor. Without it Nanking's estimate of one year, as stated in its telegram 1922, August 28 to Department, could well prove correct. With adequate supplies effective resistance may well continue much longer. If outside aid granted, problem will be to keep it out of Generalissimo's hands as well as to distribute it.

Embassy believes that further and solid planning President Li and Pai is essential in addition to demonstration of firm will to resist. We also feel that they should be given opportunity to lay realistic plans of long range nature on basis of which US Government can consider question of aid. What they have just provided is of no real value.

Embassy is mailing reference documents with partial translations.¹³ Further telegraphic report will be forwarded in event further data received.

Sent Department Cantel 1072, repeated Nanking 665.

STRONG

893.20/9-1649: Telegram

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

CANTON, September 16, 1949—1 p. m.

[Received September 17—12: 36 a. m.]

Cantel 1114. Following self-explanatory telegram sent by AstALUSNA¹⁴ Canton to CNO (DNI)¹⁵ info ComSeventh Fleet¹⁶ and ALUSNA¹⁷ Nanking.

¹³ Despatch No. 42, September 7, not printed.

¹⁴ Assistant Naval Attaché.

¹⁵ Chief of Naval Operations (Directorate of Naval Intelligence).

¹⁶ Commander, 7th Fleet, Vice Adm. Oscar C. Badger.

¹⁷ Office of the Naval Attaché.

"130730Z September: American eyes only. President Li Tsung-jen requests following message be passed Vice Admiral Badger for his information:

"Chinese Government Canton is in extremely critical position. Within next week or 10 days decisive battle expected Hunan which will decide fate Canton. General Pai Chung-hsi will face combined armies Lin Piao and Liu Po-chen. Generalissimo's actions indicate we can expect no support from Air Force and funds for Canton Government from Taiwan be completely stopped near future with no hope future Taiwan financial aid. Without funds our Government will collapse. If US intends any military, financial or moral backing, regardless amount, the time is now. Our position is critical.' End message.

"AstALUSNA Canton was called Canton by President Li and Pai Chung-hsi. Chiang Kai-shek is up to old tactics intervening in direct military command. Li and Pai fully convinced Chiang determined destroy, discredit Li Government by old tactics, then retire Taiwan await coming third world war. Example, air supplies Hengyang area. Three B-24's sent this purpose. Week ago these bombers withdrawn to Chungking. Li and Pai protest unavailing. Ku Chu-tung¹⁸ said withdrawal direct order Generalissimo.

"During recent fighting army commanders on Pai's left and right flank withdrew leaving Pai exposed. Again Generalissimo direct orders. On Hankow-Canton railroad Pai protecting northern, Yu Han-mou protecting southern. Gap occurred between Pai and Yu forces which Communists attempted exploiting, Pai and Yu closed gap with picked troops and repulsed Communists. Generalissimo furious, gave direct orders Yu Han-mou keep all troops back Canton. As yet Yu has not complied.

"Generalissimo also caused withdrawal all vitally needed ammo and bomb reserves Canton area to Taiwan. Recent ship explosion Kaohsiung one these withdrawal loads. Li states Generalissimo notified him that all funds for Canton Government from Taiwan would cease 1 October. After that date Canton Government would have maintain itself best it could. Li and Pai believe Generalissimo extended visit Chungking area due three objectives: (1) More convenient interfere military command decisions and contact field commanders for Generalissimo benefit, (2) to satisfy himself with resistance against Communists in Canton area so can advertise his personal efforts to do all he can, (3) to encourage and circulate petitions among people which demand his public return as leader free Chinese people thereby discrediting Li efforts. Comment: During meeting Li appeared fresh, alert, kindly as ever, although he and Pai had been in conference all during day and evening. Pai appeared tired, thoughtful, but with usual dry humor. At no time did their statements of present situation imply threats, demands or pleadings in reference to aid. They stated simple facts and expectations. They obviously consider immediate financial or military aid, in whatever amount, the only hope of saving present government against Communists and freeing it of the Generalissimo."

STRONG

¹⁸ Chief of the Chinese General Staff.

893.00/10-549 : Telegram

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

HONG KONG, October 5, 1949—7 p. m.

[Received October 11—1:54 a. m.]

Cantel 1166. Reference Cantel 1072, September 6, 6 p. m. After further discussion with Chu Chang-wei, Embassy has been furnished with series of charts indicating total weapons, ammunition, vehicles and draft animals possessed by 23 armies and one independent division under command of Pai Chung-hsi, the balance required fully to arm and supply them, and the quantities necessary for the 10 new armies Pai wishes to raise and for which he does not have resources. Charts also show aircraft (700), tanks (500) and equipment needed by his command as he hopes to enlarge it and states that his headquarters needs 14½ million silver dollars monthly for wages, services, overhead, food, and fodder for present forces and would need additional 7¾ million silver monthly for 10 new armies.

Charts will be mailed Department as in previous instance with partial translations. Following brief commentary seems to be called for: Pai has again failed indicate continuing sources of supply such as products from arsenals, and taxes in coin and kind levied on areas under his control; he has not indicated consumption levels or period of time for which stated stocks are adequate, nor period of time to be covered by supplies needed from outside sources; he has again indulged in luxury of wishful thinking in requesting tanks and aircraft and other types of weapons which his troops not qualified to use and for which long training needed. As against immediacy of his situation, rather than considering only basic items necessary to fight a Chinese war, he apparently has taken US Army organization and supply tables and simply gone down the list, et cetera.

In other words, we feel little of value has been added to the previous inadequate and even fatuous document previously commented on and submitted by mail. We had hoped something more basic and suitable would be forthcoming. It might be of interest to Department to compare the "plan" submitted by Li and Pai to Badger in US with the documents handed to Embassy inasmuch as AstALUSNA Canton, who has seen neither of documents received by Embassy, has made remarks which indicate there may be basic differences.

Embassy regrets necessity for continuing negative attitude on this matter; we should like to find something favorable, an indication that better things can be expected of Li and Pai than from their predecessors in military prominence. Admittedly they are working on a "shoe-string" but this fact does not entitle them to reach for the sky. In our

estimation their requirements are primarily rifles, bullets, rice, radio equipment and silver.

STRONG

893.51/10-649 : Telegram

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

HONG KONG, October 6, 1949—9 a. m.

[Received October 6—8:27 p. m.]

Cantel 1167. Chief of American section of Foreign Office¹⁹ October 3 inquired as to plan of US Government forwarding \$75 million approved by [Congress?²⁰] for discretionary use by President and whether RFC²¹ advance funds to be applied to China prior to actual appropriation of funds.

I replied Embassy had no knowledge of any plan which would [not] require first a policy decision. Until such decision no disbursements will be made. However, I stated would approach Department for available information on matter.

STRONG

893.50 Recovery/10-1449

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, October 14, 1949.

MY DEAR MR. SECRETARY: In a letter of 23 August you requested the views of this Department on the letter and accompanying memoranda which the Chinese Ambassador had submitted to you on 15 August²² on behalf of his Government. These documents contained a detailed request for U.S. military assistance²³ and a long description of the Chinese Government's general military strategy. Therefore, Ambassador Jessup with his committee²⁴ and members of my staff, subsequent to your letter, agreed to a list of specific questions on which it appeared both feasible and desirable to obtain the military comments of this Department in order to assist Ambassador Jessup in considering the Chinese request. I am now enclosing the answers of the Joint Chiefs of Staff to these questions. I believe that these answers will

¹⁹ Chen Tai-chu.

²⁰ Under the Mutual Defense Assistance Act of 1949, approved October 6; 63 Stat. 714.

²¹ Reconstruction Finance Corporation.

²² *Post*, p. 678.

²³ See document, p. 529.

²⁴ Ambassador at Large Philip C. Jessup and his committee of consultants, Raymond B. Fosdick and Everett Case.

assist your Department in evaluating the request of the Chinese Government for U.S. military assistance.

Sincerely yours,

LOUIS JOHNSON

[Enclosure]

Memorandum by the Joint Chiefs of Staff

VIEWS ON SPECIFIC QUESTIONS REGARDING CHINESE REQUEST OF
15 AUGUST FOR U.S. MILITARY ASSISTANCE

QUESTION 1: Is it practicable, even with the aid requested, for the Nationalist forces to hold the defensive line specified in the letter from Chinese Ambassador to the Secretary of State, dated 15 August 1949?

ANSWER: The line delineated in paragraph 4 of the letter of the Chinese Ambassador is not truly a military position, since it follows generally the boundaries of provinces and other administrative subdivisions of China rather than taking advantage of terrain of natural defensive strength. It is over 1,000 miles in length and has already been pierced along its eastern flank in Fukien and Kiangsi Provinces and in the northwest in Kansu Province. It is obviously impracticable for the Nationalist armed forces to hold this line in the face of superior Communist forces, irrespective of the provision of United States military aid in the amounts requested in the letter of the Chinese Nationalist Government. Further, it would be impossible, in view of the compartments of terrain and the concentration capabilities of the Communists, for the Nationalist armed forces to prevent their enemy from piercing stronger defensive lines further to the West, although such military operations would not necessarily result in wresting from Nationalist control the area of West China as a whole.

QUESTION 2: Is the proposed establishment of bases and training of forces for a counterattack practicable?

ANSWER: The question presupposes a counterattack or counter-offensive by the Nationalist forces and this in turn must be predicated upon either or a combination of the following:

a. Attainment by the Nationalist forces, primarily through reinforcements, of the military capability of halting the Communist advance in order to create conditions necessary for counteraction; or

b. Extensive changes, adverse in nature, in the Communist position resulting primarily from losses, faulty maneuvers, or other errors sufficient to permit the passing of the initiative to the Nationalists. The Joint Chiefs of Staff believe that there is scant likelihood of either or a combination of these conditions coming to pass; rather, in the light of the Communists' superiority in military strength, tactics, logistical support, command arrangements, and morale, the Joint

Chiefs of Staff feel that planning and the undertaking of preparations at this time for a major Nationalist counterattack or a counteroffensive are both unrealistic and impractical.

The Joint Chiefs of Staff doubt if the army training bases in Kwangtung and Szechwan Provinces will remain in Nationalist hands for a sufficient length of time for the training there of the twenty new divisions proposed by the Chinese Nationalist Government. In addition, the air base at Canton may soon be lost and thereafter the air base at Chengtu. Further, it is extremely doubtful if the plan for the training of Nationalist forces for a counterattack is a practicable one and that sufficient instructors could be provided for this training.

In view of the above considerations, the Joint Chiefs of Staff are of the opinion that neither a Nationalist counteroffensive nor the Government's plans in preparation therefor are practicable at this time.

QUESTION 3: Do the Nationalists now have "a unified system of command, an over-all program of defense and attack and a practical plan of coordinating the action" of various areas and of the three arms of the services?

ANSWER: The Chinese Government is divided into two major political factions, one headed by the Generalissimo and the other by Acting President Li. The allegiance of the navy and the Air Force is to the Generalissimo rather than to Li. It is believed that the majority of the regional commanders of the army regard themselves as loyal to the Generalissimo. However, General Pai, of the Central Command, is a follower of Acting President Li, and all of the Nationalist commanders in northwestern China are relatively autonomous and thus tend to be very independent in their actions. The political and military leaders of Nationalist China in general seem concerned primarily with the retention of their present positions and the furthering of provincial interests rather than those of non-Communist China as a whole. The Joint Chiefs of Staff do not believe that the Nationalist Government has, in fact, a unified command, an effective over-all program of defense and attack, and a practical plan of coordinating military action.

QUESTION 4: Are the figures of Nationalist and Communist strengths accurate as stated in the letter from Chinese Ambassador to the Secretary of State, dated 15 August 1949?

ANSWER: The estimates of Nationalist and Communist strengths in the letter from the Chinese Ambassador are somewhat higher than those assembled by the Joint Chiefs of Staff. This discrepancy, however, is probably due to inclusion in the Chinese Nationalist Government figures of local and irregular troops. Accordingly, the Joint Chiefs of Staff do not take issue with the strengths stated in the letter

from Chinese Ambassador to the Secretary of State, dated 15 August 1949.

QUESTION 5: How much of the \$125,000,000 of United States military aid to China in 1948 is still unexpended?

ANSWER: As of 31 August 1949, 90.4% of the materiel and supplies purchased by funds of the current aid program had been shipped to China. As of 1 September 1949, the sum of \$1,949,512, earmarked by the Chinese Government for specific items was unobligated. However, contracts are being let for these specific items and the balance remaining after contract payments therefor will be required for transportation costs. Therefore, to all intents and purposes, the funds of the current aid program for China are now exhausted.

QUESTION 6: Are the types of materiel specified in the Chinese Ambassador's letter and accompanying memoranda those which are most urgently needed and could they be delivered?

ANSWER: The logistical support requested in the annexes, with tabs and exhibits is in consonance with the Chinese Nationalist Government's prepared military plans and would be urgently needed if the implementation of these plans were undertaken. Also, the types of materiel are similar to those supplied under the \$125,000,000 program referred to in Question 5 and coincide generally with those requested as first priority during 1948 and 1949. However, the Joint Chiefs of Staff, from the military point of view, do not consider the plans for counterattack and counteroffensive, as proposed by the Chinese Nationalist Government, to be practicable and realistic at this time. Since logistical support must be related to specific military plans and particularly to the scope and nature of the operations projected therein, the Joint Chiefs of Staff cannot agree to the provision of amounts and types of materiel for plans that, in their opinion, are not feasible.

In regard to the matter of the delivery of the materiel specified, the production capacity of the United States is undoubtedly sufficient to provide these items. However, the Joint Chiefs of Staff do not believe that their supply by the United States in the quantities and categories requested is now warranted.

QUESTION 7: What degree of United States supervision would the Joint Chiefs of Staff consider necessary if such aid were granted?

ANSWER: The degree of United States supervision required would depend largely upon the size and type of the Chinese military assistance program. The Joint Chiefs of Staff would not at this time favor adoption for China of the procedure employed by the United States military mission to Greece nor would they recommend resumption of the procedure for advisory activities on a Ministry of Defense level

as followed by their former joint mission to China. The Joint Chiefs of Staff feel that United States supervision of military aid is a detail which can best be considered when the specific practicable operational plans that are contemplated under the general plan of operations are known.

893.00/10-1649: Telegram

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

HONG KONG, October 16, 1949—9 a. m.

[Received 2:52 p. m.]

859. In conversation Consul General office October 14, 1949, Li Yu-lon, son Li Tsung-jen, stated presenting following on explicit instructions of father given him October 12. Li will be Chungking only few days attempt establish legality Nationalist Government there to keep foreign missions attached and will return Kweilin. Li desperately requests US aid and has presented following plan to Pai Chung-hsi which delegates, Chen Chi-tang and Hsueh Yueh,²⁵ drew:

On receipt immediate US aid they would defend line from Kweilin, Liuchow, Nanning, Kwangchow, using Kwangchow and Pakhoi as ports receive aid. Hainan also would be held by Chen taking 30,000 troops now southern Kwangtung, trained by Chen's brother and loyal to Chen, to Hainan. There are now 30,000 troops Hainan loyal to Gimo but Chen claims could get their loyalty by paying and feeding them. He would have act fast as Gimo planning send more troops Hainan. Liu fears Szechuan may last short time but Liu Wen-kwei loyal him and desires fight with him. Claims Pai has 200,000 troops Kwangsi, although had fairly heavy losses due being forced to fight way out of Hengyang because Gimo treachery in withdrawing his Kwangtung troops without notice. Li anxious now as before break with Gimo and fight to end but can only do so if we supply sufficient funds pay troops, and arms. Gets little money from Gimo but has been only source and funds and only reason not able break before. If American aid not forthcoming soonest, he forced resign. Desired emphasize aid given may be supervised any way US desires, and if any substantial part of \$75,000,000 given him, can hold above line several months, causing Communists intense headache.

RANKIN

²⁵ Governors of Hainan Island and of Kwangtung, respectively.

893.51/10-649 : Telegram

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

WASHINGTON, October 17, 1949—7 p. m.

TelCan 728. Re Cantel 1167, Oct 6, request by Chief of Amer section FonOff for info re US aid. Dept of opinion you shld not volunteer further reply. If FonOff renews inquiry, however, you may say that Dept has informed you only that interested agencies of US Govt now have under consideration the means by which the policies and purposes declared in the Mutual Assistance Act can be accomplished through expenditures in the general area of China.

ACHESON

Department of Defense Files

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, OCTOBER 19, 1949.

Subject: Study of Chennault Plan by Joint Chiefs of Staff

References: A. Memo for Secretary of Defense from Executive Secretary, same subject, dated August 25, 1949

B. NSC 48 and related papers ^{25a}

In accord with the request of the Under Secretary of State in the reference memorandum,^{25b} the enclosed memorandum by the Secretary of Defense, which includes the comments of the Joint Chiefs of Staff on various aspects relating to the subject, is circulated herewith for the information of the National Security Council.

SIDNEY W. SOUERS

[Annex]

Memorandum by the Secretary of Defense (Johnson) to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, October 18, 1949.

On 25 August you transmitted to me the request of the Department of State* for the views of the Department of Defense on the so-called Chennault Plan which General Chennault had presented to the House

^{25a} The NSC 48 series dealt with U.S. Policy Toward Asia ; see the regional compilation in volume VII.

^{25b} See the memorandum from Webb to Souers, August 24, p. 540.

* Memo for Secretary of Defense from Executive Secretary, subject, "Study of Chennault Plan by Joint Chiefs of Staff", dated August 25, 1949. [Footnote in the source text.]

Foreign Affairs Committee. The Department of Defense, after studying this plan, is of the opinion that the existence of unified resistance to Communist forces, as assumed in the plan, depends in fact on the development of several conditions which are not observable at present. Furthermore, the operational and logistical recommendations of this plan are too vague to permit detailed military analysis. The Joint Chiefs of Staff have commented as follows on various factors relating to the Chennault Plan :

1. The "great Western Zone" of China, described in paragraph F (1) of the Chennault Plan, is a mountainous area with much defensive terrain. The people, many of whom are Moslems, are as a whole anti-Communist. The natural resources of the area appear sufficient to sustain life among the indigenous population and to provide certain stores in limited quantities for their fighting forces. It is believed that if the people of the "great Western Zone" of China would unify in a common effort, they could at least delay the Communists' advance with the means at hand. The likelihood of establishing, by concerted action, an effective belt of resistance to Communist forces would depend primarily upon :

- a.* Development of competent military leaders ;
- b.* Regeneration of the confidence of the people in their ability to oppose successfully Communist aggression and the strengthening thereby of the will of the Nationalist armed forces to fight ;
- c.* Timely receipt from foreign countries of essential military supplies that cannot be provided locally ;
- d.* Cooperation of the nations of Southeast Asia ;
- e.* Moral support and public backing from the non-Communist nations of the world ; and
- f.* The continuance of the spread of unrest and instability in Communist-held China.

2. Neither the plan nor its logistical support is in sufficient detail for the relation of one to the other. In view of the munitions manufacturing capacity in the Chungking area, the Joint Chiefs of Staff doubt, however, if small arms and light mortars with ammunition are urgently needed by the Nationalist forces for defense. In the absence of detailed plans, the need for the other articles mentioned in the Chennault Plan (pack artillery, motor transport, communications equipment, planes and other equipment for air reconnaissance and for army use) cannot be assessed.

In regard to the matter of the delivery of the materiel specified the production capacity of the United States is undoubtedly sufficient to provide these items. However, the Joint Chiefs of Staff do not believe that their supply by the United States in the quantities and categories requested is now warranted.

3. With reference to the question of U.S. supervision raised in paragraph F (3), the degree of United States supervision required would depend largely upon the size and type of the Chinese military assistance program. The Joint Chiefs of Staff would not at this time favor adoption for China of the procedure employed by the United States military mission to Greece nor would they recommend resumption of the procedure for advisory activities on a Ministry of Defense level as followed by their former joint mission to China. The Joint Chiefs of Staff feel that United States supervision of military aid is a detail which can best be considered when the specific practicable operational plans that are contemplated under the general plan of operations are known.

I wish to point out that the Department of Defense is actively pursuing its studies of feasible military means to achieve the objective of denying to Chinese Communist forces those parts of China still remaining free from Communist control. The Department of Defense, in this connection, believes that an NSC decision regarding the U.S. policy for Asia (NSC 48) would greatly facilitate governmental consideration of such means.

LOUIS JOHNSON

033.1100/9-1049

*Memorandum by the Director of the Office of Chinese Affairs (Sproue) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)*²⁶

[WASHINGTON,] October 20, 1949.

Subject: Solution for China as Outlined by General MacArthur to Huber Subcommittee of Congress

Attached hereto is a copy of Despatch No. 625 from the Office of the United States Political Adviser for Japan²⁷ enclosing a summary²⁸ of General MacArthur's response to a request of the Huber Subcommittee that he outline the measures which he thought necessary in China.

It is believed that in appraising General MacArthur's suggestions certain considerations outlined below ought to be kept in mind.

²⁶ Drafted by Wallace W. Stuart, of the same Office, and initialed by the Acting Deputy Director of the Office (Freeman); transmitted by Mr. Butterworth with his covering memorandum of October 28 to the Office of the Secretary of State with the statement that "You will recall that reference was made yesterday at the meeting with the Consultants to General MacArthur's recent statements on China policy to a visiting group of Congressmen." Notation by Mr. Butterworth: "Seen by the Secretary & returned Nov 4".

²⁷ September 10, not printed.

²⁸ See memorandum of September 5, p. 544.

In general the specific steps recommended by General MacArthur appear to neglect political forces and objectives in favor of strictly military measures. Military measures ought to be looked upon as a means to achieve political objectives. In this case presumably the immediate political objective would be the establishing of a non-Communist national government in a position of enduring control in China. However, it might be argued that even if the national government were established in control with the help of U.S. military support, the measures suggested by General MacArthur would so arouse the hatred of the Chinese people that the collapse of that government would follow closely upon the withdrawal of U.S. military support.

General MacArthur states that if the following steps are taken immediately, the situation can be saved: (1) issuance of a ringing declaration that the U.S. will support any and everyone who is opposed to communism; (2) placing 500 fighter planes in the hands of some "war horse" similar to General Chennault; (3) allowing volunteers to join such a fighting force without penalty; and (4) assigning surplus ships to the Chinese Navy sufficient to blockade and destroy China's coastal cities.

With respect to (1) above it may be observed that U.S. resources are not unlimited and that experience has shown that at a time when many aspirations and hopes are sweeping the Far East, a purely negative program of opposing communism is not sufficient to win the popular support necessary if a regime is to survive. U.S. support of groups or regimes unable to marshal internal support is likely merely to dissipate U.S. resources, create anti-Americanism in the areas concerned and pervert the concept of U.S. aid as a marginal increment in assisting indigenous effort to that of U.S. support replacing indigenous effort.

Steps (2) and (3) would amount to direct involvement of the U.S. in Chinese hostilities. In taking these steps, the U.S. would have to assume concurrent responsibility of providing ammunition, replacement parts, supporting personnel for the planes and possibly for U.S. defense of airfields and supply lines. It would commit U.S. prestige to a degree which would make subsequent withdrawal in the case of failure almost impossible. The end result would probably be ever deeper U.S. involvement in hostilities, with the U.S. playing the role that Japan played in the previous conflict, and the Chinese Government in the eyes of the Chinese people, that of the Wang Ching-wei²⁹ puppet government. The commitment of American strength and resources in the resulting Chinese morass would very possibly diminish rather than augment U.S. overall strategic strength. Furthermore,

²⁹ Head of Japanese-sponsored regime at Nanking, 1940-44.

past evidence does not indicate that planes and ships would be a decisive factor in civil hostilities of the type in China. General Barr stated on December 2: "I believe that the formation of an American volunteer group can do little more than delay the eventual defeat of the Nationalist armed forces." The objective in civil hostilities is to destroy the military strength of the opponent and win support of the civilian population. Air power, by inflicting death and destruction upon enemy armed forces and the civilian population indiscriminately, as would almost certainly occur in China, would probably insure to the Chinese Government, as to the U.S. which would supply the means, the enduring opprobrium of the Chinese people.

It should be noted that, prior to losses through defection and misuse, the Chinese Government enjoyed complete supremacy over the Chinese Communists in terms of naval and air strength. On the basis of past record, there is no reason to believe that the supplying of additional naval vessels, as suggested in (4), would prevent either further defection or further misuse unless the vessels were U.S. manned and operated. It is believed that if the U.S. participated either directly or indirectly in the destruction of the Chinese coastal cities, as called for in (4) above, the good will and friendship of the Chinese people toward the U.S., which has been accumulated over the past century, would be irrevocably destroyed. With respect to the Chinese Government, it is very possible that such drastic measures would in the long run defeat the objective which they sought to accomplish.

General MacArthur points out that the basic objective of Russian policy for generations has been to acquire warm water ports and states that the USSR is now driving for the warm waters of the Indian Ocean. He does not mention the possibility that this drive may bring communism into headlong collision with aroused forces of nationalism in Asia, nor does he mention the possibility that the strength of the drive may be lessened and finally brought to a halt by the vastness of the areas to be traversed, and the almost total absence of any inland means of communications.

Finally it is believed that General MacArthur's appraisal of the present stature of the Generalissimo as a leader is much too optimistic. Reports from many and varied sources in China indicate that his prestige, except among a limited circle of immediate followers, has largely disappeared. Furthermore, as General MacArthur points out he knows nothing of the art of war. This would not be a serious shortcoming if he recognized his limitations. However, it is a dangerous combination when, as in the case of the Generalissimo, a leader knows nothing of the art of war and yet believes himself a military authority. The resulting unwillingness to seek and abide by the advice of com-

petent military commanders has, in the case of the Generalissimo, been a serious handicap to the Nationalist war effort.

893.24/10-2149

Memorandum by Mr. Max W. Bishop, Special Assistant to the Deputy Under Secretary of State (Rusk), to the Deputy Under Secretary of State (Rusk)

[WASHINGTON,] October 21, 1949.

Subject: Study on Problems Involved in Military Aid to China

In view of the importance of the Asia policy and of the question of assistance to anti-communist forces in China, I believe you will want to read at least the conclusions of the attached study by the Joint Strategic Survey Committee which is an example of the type of plan which the JCS presumably would approve, providing there is first a policy decision of opposition to communism in China.

M[AX] W. B[ISHOP]

[Annex]

STUDY ON THE PROBLEMS INVOLVED IN MILITARY AID TO CHINA

1. United States military aid to China is only one facet of the larger problem of United States policy toward that country. This policy, in turn, must be regarded as a future major integral element of the undetermined future national policy toward Asia. In view of the fact that a United States policy statement for Asia is now being drafted in the National Security Council and, concurrently, a review of United States policy for China is being conducted in the Department of State, a study on military aid to China in advance of determination of United States policy for Asia must be considered very tentative. In addition, the rapidly deteriorating situation of the Chinese Nationalist Government in China adds to the uncertainties now inherent in the study.

2. The Communists now control much of China although not as much as the Japanese did in 1945. The Communists may be expected soon to extend their control to include practically all of the Chinese coastal area and Hainan and possibly Formosa. However, there is still a non-Communist area in south China some 500 miles in width and a potential anti-Communist belt in southwest China of even greater depth. These areas now separate southeast Asia from Communist-controlled China. Once China falls, all of Asia would, in all probability, eventually succumb to communism.

3. The control of the Chinese Nationalist Government over the non-Communist areas of China has become so weak that it is now little more than nominal. In addition, the government itself is divided into two major political factions, one headed by Generalissimo Chiang Kai-shek and the other by Acting President Li Tsung-jen. Acting President Li governs south central China and the forces there are commanded by his followers. The provincial governors of all the other non-Communist areas of China, together with the Nationalist air force and the fleet commanders, profess allegiance to the Generalissimo who also controls certain monies of the Nationalist Government as well as the distribution of some military supplies. The situation, however, is ripe for the rise of war lords in the non-Communist areas since these portions of China are no longer controlled by one man or group or by a central government.

4. Non-Communist Chinese forces estimated at 1,210,000 are reported to be distributed approximately as follows:

<i>General Area</i>	<i>Strength</i>
Taiwan, Pescadores	105,000
Hunan, Kwangsi, Kiangsi, Hupeh	175,000
Southern Shensi	150,000
Suiyuan, Kansu, Ninghsia, Tsinghai, Sinkiang	120,000
Szechwan, Sikang	35,000
Yunnan	15,000
Kwangtung	85,000
Fukien	15,000
Chou Shan Archipelago	10,000
	<hr/>
Total	710,000

In addition, there are on the order of 500,000 civil troops, provincials, and troops in training.

5. The current main effort of the Communist forces is south along the coast of China. The Communists are also continuing to make progress in Kansu and Tsinghai Provinces in the northwest.

6. The most probable course of action of the Communist armies is to exert maximum military effort to reduce the effectiveness of and to isolate the Nationalist forces from each other in order to defeat them in detail. It is believed, in view of the increasing anti-Communist feeling in China, that the Communist army commanders will advance slowly, regrouping and resupplying fully, and consolidating militarily and politically each new gain to the extent they consider necessary before undertaking further operations.

7. The immensity of China's economic problem is causing the Communists many difficulties in the areas they have conquered; these difficulties have been increased by the blockade of Communist-held

ports by the Nationalist navy, by inexperienced Communist administrators, and by civil disturbances, particularly by peasants. Unrest in the captured port cities is prevalent and over one million persons from Shanghai alone have been moved to rural areas largely unprepared to receive them. Throughout Communist-held China, uncoordinated peasant uprisings have already occurred on a small scale, and banditry and guerrilla activities are on the increase. However, there is no evidence that civil disturbances in rear of the Communist troops have yet affected plans for Communist military advances. Nevertheless, communism has not provided the solution to China's age-old economic and population problems and disappointment and dissatisfaction with Communist rule is spreading.

8. Nationalist ground forces are now on the defensive everywhere. Nationalist morale is low and defeatism prevails among the commanders and the troops. This attitude of defeatism has followed in the wake of numerous Nationalist tactical failures resulting from such military errors as overextension of lines of communications, failure to take timely action, conflicting orders, failures in mutual support during combat, and the tendency to concentrate in or withdraw to urban areas rather than to the best military positions. Although there are a few competent Nationalist commanders, the military system as a whole has been handicapped by cliques and by political appointees. In addition, the troops, many of them impressed into service, are in general poorly fed, clothed, and paid, all of which have affected their will to fight. Although the Nationalist forces could not conceivably regain the initiative now, they should, in the interests of morale, undertake as early as practicable some offensive operations, even if only of local or of guerrilla type, in order to interfere with the enemy operations, increase the difficulties of Communist control, raise the fighting morale of the anti-Communist forces, and obtain from the Communists by capture arms, equipment, and stores for future operations. However, unless certain essential military supplies are furnished, the feeling of hopelessness will prevail and it will be impracticable for many of the non-Communist forces to launch even local attacks.

9. The Nationalist navy of some 80 seagoing vessels is believed capable of maintaining under present conditions a reasonably effective blockade of the ports of China from Shanghai to Fukien. Acquisition of spare parts, by one means or another, is essential for the maintenance of these units. The crew of each vessel shares in the prize money from captured blockade running ships. As previously indicated, the navy commanders profess allegiance to the Generalissimo.

10. The operations of the Nationalist air force units stationed on Taiwan are handicapped by inadequate maintenance and supplies.

There has been considerable cannibalization of planes in order to continue even limited operations. These units do perform some bombing missions against targets in Communist China and have performed modest though efficient airlift operations. Their primary task, however, is to maintain a blockade of the commercial air traffic to the coast of Communist China. As previously stated, the air force units stationed on Taiwan profess allegiance to the Generalissimo.

11. The United States has been furnishing military aid to China in its struggle against communism during the past several years. The provision of this aid is in consonance with our overall policy of containing communism and our security requirements that China be kept free from Soviet domination, since otherwise all of Asia would in all probability pass into the sphere of the USSR.

12. From the United States military point of view, Soviet domination of Asia would strengthen the over-all strategic position of the USSR at the expense of the non-Communist nations by:

- a. Providing the USSR with additional strategic space;
- b. Increasing by approximately one-third the military-industrial potential of the USSR;
- c. If Japan were included, permitting establishment of a self-sufficient Asian war industry;
- d. Weakening United States world leadership, particularly our leadership in the western Pacific;
- e. Denying to the non-Communist nations a much needed manpower reservoir of approximately one-half the population of the world;
- f. Denying to the United States strategic materials now in short supply in our stockpiles; and
- g. Denying to the United States bases on the mainland from which to project our power in a global war. In addition should Japan succumb to Soviet domination, the United States would face neutralization or even capture of some or all of its Asian offshore bases.

13. In view of the present situation in non-Communist China, it appears that there can be little expectation, based on purely military grounds, of regaining much of the ground which has been lost to the Communists, at least for a number of years. It is believed that all that could be done now would possibly be to slow the Communist advance with a view to eventually stopping it. From the military point of view, it would be highly desirable at least to contain communism within north and east central China rather than at China's southern borders and thus to minimize Communist penetrations from the north into southeast Asia. Military aid alone, regardless of the amount, cannot halt the advance of the Communists in the immediate future. However, if the unrest in Communist-held China continues to grow and if a determined will to resist can be regenerated in the anti-Communists, it might be possible with capable leadership, for the non-Communists

to retain footholds in South China which would constitute deterrents to Communist penetration into southeast Asia, as well as to prevent Communist consolidation of all of China. It appears that one of the cheapest and most effective steps which the United States could take toward aggravating the economic problems and unrest in Communist-held China would be aid to anti-Communist forces which are now engaged, or may engage in the future, in interference with the sea and air lines of communication with Communist-held seaports.

14. In the light of the foregoing it is apparent that early provision of United States military aid to China in order to contain communism there would be a gamble. However, it would indicate to Asia and the world that the United States has no intention of abandoning China as the Chinese now apparently believe.

15. From the strategic point of view it is important to maintain non-Communist areas of resistance in China since these would be of value in preventing Communist penetration into southeast Asia and in providing rallying points susceptible for use in future efforts to deliver the country from communism. There is a slight possibility that the people of the "great Western Zone" may establish a belt of resistance there against communism. The population as a whole is anti-Communist. The area is mountainous and contains much defensive terrain. It is believed that the resources of this area are sufficient to sustain life among the indigenous population and provide certain stores in limited quantities for their fighting forces. In this connection, the munitions industry in the area around Chungking manufactured the following munitions in April 1949 :

Rifles	10,000
Machine guns	600
Mortars	600
Recoilless guns	12
Small arms ammunition	25,000,000
Mortar shells	200,000
Grenades	150,000

While the chemicals necessary for the explosives in ammunition are locally available, there is not sufficient production of copper, lead, and zinc to meet munitioning needs and these would have to be obtained from foreign sources. The area is deficient in petroleum and transportation facilities are inadequate.

16. The possibility of the people of the "great Western Zone" establishing an effective belt of resistance to Communist forces would depend primarily upon :

a. Development of competent military leaders ;

b. Regeneration of the confidence of the people in their ability to oppose successfully Communist aggression and the strengthening thereby of the will of the Nationalist armed forces to fight ;

- c.* Timely receipt from foreign countries of essential military supplies that cannot be provided locally;
- d.* Cooperation of the nations of southeast Asia;
- e.* Moral support and public backing from the non-Communist nations of the world; and
- f.* The continuance of the spread of unrest and instability in Communist-held China.

17. Although transportation facilities in non-Communist China, as well as in China as a whole, are poor, it is practicable for supplies to reach the present non-Communist area by land means within the country from the coast along the Gulf of Tongking and by way of French Indo-China, Thailand, and Burma. Although airlift could be established in the same general areas, there has been a distinct tendency on the part of the Chinese to over-emphasize the use of this type of lift while disregarding the expense and lack of facilities necessary for effective and continued air transport operations. Airlift should therefore be considered as a supplementary means and in general should be limited to emergencies. Some of the routes would be of considerable length. However, they would not be, in general, any longer or more difficult than present lines nor than those used for the supply of Nationalist forces during World War II. Although there is a possibility of land passage of some supplies to the Nationalists through communist-held territory in China, the amount would probably be negligible.

18. There is little indication at this time that the anti-Communists will unite in a determined fight to re-establish a central anti-Communist government. There is a greater possibility that the people in some areas within this belt will act under war lord leadership to resist the Communist armed forces and that the efforts of some of these groups may achieve success.

19. The major questions involved in United States military aid to China are what can be accomplished and whether these accomplishments would be worthwhile. The factors involved in a United States decision regarding military aid to China, short of commitments of our forces, are political as well as military and also include consideration of our national economy and the importance of aid to China relative to other nations in our over-all aid programs. As previously stated, from the strictly strategic point of view, a modest stake in a gamble on the non-Communist elements of China would be worth undertaking provided these elements continue to fight the Communists and to cooperate with us.

20. A modest military aid program for China might be developed along either of the following general lines or a combination thereof:

- a.* A program of assistance direct to non-Communist fighting forces; or

b. A program of special operations in China.

21. A program of United States military aid direct to non-Communist fighting forces in China might be based on the following general policies:

a. It would be supervised by a senior military officer of general or flag rank, now possessing the confidence of the Chinese anti-Communist leaders, and a relatively small number of experienced officers from the Army, the Navy, and the Air Force;

b. The headquarters of the supervisory group would be established at some place other than Taiwan or the capital of the Nationalist Government;

c. The military assistance to be furnished would consist generally of ammunition, demolitions, fuel and maintenance equipment and supplies dependent upon approval of the United States supervisory group.

d. Aid would only be provided for the requirements of operational plans aimed at specific limited objectives which would be prepared and executed by Chinese commanders. These plans, together with lists of equipment and supplies essential to their accomplishment and which the Chinese commanders cannot provide from their own resources, would be reviewed and either approved or disapproved by the Chief of the United States military supervisory group in China;

e. The Chinese commander, who is to be the recipient, would have to make satisfactory arrangements to move the materiel from the United States transfer point to his command before aid is shipped to him;

f. It would be practicable and highly desirable to include plans in Chinese covert operations related to United States aid among those to be reviewed and either approved or disapproved by the Chief of the United States military supervisory group in China. Supervision of these operations should be a responsibility of the Chief of the United States supervisory group and should be accomplished in a manner similar, as far as practicable, to that employed in connection with approved Chinese overt operations.

g. Details relative to the functions and operational procedures . . . of the United States military supervisory group, in consonance with the broad policies outlined above, should be held in abeyance until after the appointment of the chief of the group; and

h. After his appointment, the chief of the group would be expected to prepare and submit to the Joint Chiefs of Staff for approval recommendations covering his proposed detailed plans and procedures for the implementation of the program.

22. The program of United States military aid direct to non-Communist fighting forces in China would be materially assisted if the Chief of the United States supervisory group were promptly informed of all United States government policies, actions, and recommendations with respect to China.

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CONCLUSIONS ^{29a}

25. Based on the foregoing, the Joint Strategic Survey Committee concludes that :

a. A modest well-directed program of aid to China would now be in the security interest of the United States;

b. The program for aid to China should include aid direct to non-Communist forces as long as this is practicable . . .

893.24/10-2149

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] October 21, 1949.

Discussion

It is my understanding that the President has decided not to delegate to other authority for the use of the \$75,000,000 fund authorized under Section 303 of the Mutual Defense Assistance Act of 1949, but that he will entertain recommendations respecting its use. I believe that the question of the use of all or part of that fund for overt military assistance to the Chinese Government or remnants of the Chinese Government should be met squarely without delay. The steady deterioration of the military position of the Chinese Government, the urgent pleas of that government for assistance, and the fact that funds have now become available for use within the discretion of the President for that purpose argue strongly for a prompt decision.

The following basic assumptions are, it is believed, fully supported by information available to the Department respecting the situation in China and are pertinent to consideration of the question of further military assistance to the Chinese Government.

1. The phase of organized large-scale military resistance to the Chinese Communists has passed or is rapidly passing and a period of massive political defection is taking its place. As a matter of fact General Barr reported to the National Military Establishment as early as November 1948, even before the Chinese Government had suffered staggering military reverses at Peiping, Tientsin and Hsuehchow and before the Communist armies had moved in force across the Yangtze overrunning most of southeastern China, that he was

^{29a} The Department of Defense has supplied information to the effect that the Joint Chiefs of Staff forwarded the JSSC study to the Secretary of Defense on October 6, 1949, with the following statement: "Although this study does not have their formal approval, the Joint Chiefs of Staff consider it to be sound background material."

convinced "that the military situation has deteriorated to the point where only active participation of US troops could effect a remedy" and that he believed that "Communist forces will overwhelm the Government wherever it locates itself." These views have been confirmed by the march of events. Furthermore, other military appraisals including that of Joint Chiefs of Staff respecting the military aspects of the Chinese Government's proposed aid programs, the compartmentalization of Chinese Government forces permitting the Communists to bring their overwhelming military superiority to bear individually upon isolated areas, the defection of several provinces in the northwest area of China, and the political instability in Szechuan and Yunnan Provinces all tend to support the assumption stated above.

2. Use of the entire \$75,000,000 fund for military aid to the Chinese Government would, if successful at all, merely buy time. The magnitude of previous American aid to the Chinese Government at a time when its position vis-à-vis the Chinese Communists was vastly stronger, the complete failure of that aid to prevent the rapid deterioration of the Chinese Government's position, the absence of convincing developments which promise more effective use of further aid and the magnitude of the present disparity between the Chinese Government and Chinese Communist military strengths support this assumption.

From a further study of the problem, it would appear that any proposal for use of the funds in question for overt military assistance to the Chinese Government should offer assurances that :

(a) Military aid will not as in the past go to strengthen the Communists;

(b) Military aid to any area or faction will not in effect precipitate a Communist attack upon that area;

(c) The proposed aid will not popularize the Chinese Communists within China by providing at once a straw man which they can knock down and an excuse for their own failure to solve internal problems;

(d) The proposed aid will not obscure with evidence of U.S. intervention the main issue of Soviet imperialism in China;

(e) The time brought [*bought*] by the proposed aid can and will be used to bring about a significant redress of the present unfavorable situation;

(f) The proposed aid program will not be merely another ineffective U.S. operation in China further dragging down U.S. prestige and further augmenting anti-American feeling within China.

Finally, the fund available is not large when measured against the possible uses for it and the anticipated advantages from its use in whole or in part in China would, of course, have to be weighed against advantages which could be expected to accrue from its use elsewhere. At the same time consideration should be given to the disappointment

and resentment which might arise in the other countries of southeast Asia if their own needs were neglected as a result of a program of aid to China which offered little possibility of success. A study is being made of the possible uses of portions of the fund in Burma, Indonesia, French Indochina, Siam, South Korea, and the Philippines.

On balance, it is believed that the use of funds provided in Section 303 of the Mutual Defense Assistance Act of 1949 to provide *overt* military assistance to the Chinese Government or faction thereof would not be to the interest of the U.S. It is believed, however, that some part of the funds should be reserved for possible use in supplying *covert* military assistance to promising resistance groups within China if and when an opportunity to do this arises and for remedying specific military supply deficiencies on Formosa if this becomes necessary and desirable.

However, it is realized that the question of supplying further military assistance in China has many military aspects and that the national interest requires the fullest examination of the problem from all of its aspects. It is accordingly believed that the National Military Establishment should be given every opportunity to contribute its views and comments to the final decision.

Recommendation:

It is recommended that arrangements be made whereby you and the Secretary of Defense may discuss this matter with the President with a view to determining as soon as possible whether further overt military aid should be provided China from the funds authorized in Section 303 of the Mutual Defense Assistance Act.

890.20/10-2449

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Under Secretary of State (Webb)

[WASHINGTON,] October 24, 1949.

Subject: Use of \$75 Million for "General Area of China" under the Mutual Defense Assistance Act

Problem:

1. To obtain approval of the policy to be used as a planning guide in developing within the Department specific programs and projects under Section 303 ("General Area of China") of the Mutual Defense Assistance Act of 1949.

2. To obtain approval of certain specific projects which have the highest priority for China, Indonesia, Thailand and Burma prepara-

tory to presentation to the President to obtain his approval thereof and the allocation of funds.

Background:

Pursuant to the authority contained in the Mutual Defense Assistance Act of 1949 Congress has appropriated \$75 million to serve as an emergency fund for the President for use in the general area of China in the light of the concern of the United States in the present situation in China.

It is my understanding that the President has indicated his intention of retaining control of this special fund although he will by executive order transfer his authority under the Act to the Secretary of State with respect to the North Atlantic Treaty countries and the other countries specifically mentioned as recipients of military assistance. In view of this determination by the President, this opportunity is being taken to bring to your attention the policy which is proposed as a planning guide in developing specific programs and projects to be presented to the President to obtain his approval and the allocation of funds.

As you know, Section 303 is intended to vest in the President very broad authority to deal with the rapidly changing situation in China and that general area of the world. The President is not required to account for expenditures made under this authority provided that there is certification by him of the amount expended and that it is inadvisable to specify the nature of such expenditures. The official record with respect to the area involved is very clear in expressing the intention that the use of the funds is not confined to China proper. By the same token, in not specifying any country, the discretion appears to remain with the President to use the funds in any country in the general area which is or could be affected by the situation in China or which can affect that situation.

This Act contains no limitation with respect to the form of assistance under Section 303. This contrasts with the fact that the aid to be rendered to the specified nations under the other provisions of the Act is limited to military assistance. Furthermore, the authorization for this fund is not limited to June 30, 1950, as is the case with the other authorizations under the Act. However, in making appropriations to carry out the Act, Congress has made the entire appropriation, including the \$75 million, available only through June 30, 1950.

Upon the cessation of effective resistance by the present Chinese Nationalist Government to the Communist forces, the latter will undoubtedly redouble their efforts to wrest control from the legitimate authorities in other countries in the general area of China. The best interests of the United States will be served by encouraging in every

way possible in these countries stable governments capable of putting down internal revolt and resisting external Communist pressures and able also to advance the social and economic rehabilitation of their countries. The funds now available under Section 303 afford an extraordinary opportunity for the United States to act quickly in the light of this situation. Accordingly, and based on the proposed policy statement which is attached, there have been prepared detailed statements of projects of the highest priority which are proposed to be undertaken immediately in China, Indonesia, Thailand and Burma. There are also in process of development a number of other projects which it is felt may appropriately be undertaken under Section 303 but which are considered at the moment to be of a secondary priority.

With respect to China, a separate memorandum dated October 21 discussing the possible use of all or a portion of the fund for military aid to China is being forwarded to you. In keeping with the conclusions reached in that memorandum, our plans set forth herein are based on the hypothesis that direct military aid to the Chinese National Government will not be provided. It is expected that our planning on this assumption, however, will take into account the possibility of covert military assistance to provincial leaders in China. The question of covert military assistance is being discussed in an additional memorandum. We are proposing in the attached project statement that approximately \$1 million be provided immediately for an expanded information program along specific lines which are designed to align public opinion in China in favor of the United States and to resistance to international Communism.

It is proposed that the highest priority be given under this program to the project for providing police equipment amounting to \$10 million to the Indonesian constabulary after independence. It is estimated that this amount will provide for completing the equipping of 100,000 men. The immediate Communist threat to Indonesia is internal in character. Accordingly, the type of assistance which the emerging sovereign Republic of the United States of Indonesia will get is characteristic of police equipment traditionally used in a jungle country. Following the Netherlands police action in December, 1948 large numbers of Communist operatives imprisoned by Indonesian republican authorities regained their freedom and presumably are preparing to resume activities in the near future. The present Indonesian nationalistic leadership has taken a strong anti-Communist line and is regarded as a dangerous enemy by world Communism which will spare no effort to destroy this leadership and to replace it by others who will respond to Communist direction.

It is further proposed that \$5 million be made available to Thailand to provide necessary military equipment for five battalions. Although beset both externally and internally, the Thai Government has specifically declared itself in opposition to Communism and has sought to align the Thai nation with those nations opposing the advance of Communism. Externally; Chinese and Vietnamese Communist-led forces are in control of the areas to the north and east of Thailand. In Malaya on the south there are strong Chinese Communist-led guerrilla bands which are presently in revolt against the British authorities and whose principal sphere of action lies along the Malaya-Thailand border. Internally, Thailand is threatened by Chinese Communists who are attempting to gain control of the 3,000,000 Chinese in Thailand. These forces within the nation are strongly armed and are unfriendly to the declared intentions of the Thai Government.

It is also proposed as a matter of priority that the sum of \$1,220,000 be utilized to provide to the Burmese Government 10 vessels suitable for river patrol duties together with the required maintenance facilities and American technicians and instructors to train Burmese personnel in their proper operation and maintenance. Burma's internal disturbances make it vulnerable to Chinese Communist pressure. An adequate and efficient river patrol service, operated by the Burmese Navy, would enable Government forces to gain control of vital north to south lines of river communication cutting through Communist held areas and other disturbed regions in central Burma. Such a service would also establish government supremacy over the waterways of the southern rice-producing delta region, in large sections of which Communist insurgent activity now seriously interferes with the movement of rice to market and export centers. Firm control of waterways transportation and communication would ultimately be a controlling factor in stabilizing the central government authority, in stimulating economic recovery and in reuniting the country.

Meetings have been held with Mr. Rusk, with Mr. McGhee,³⁰ Mr. Gross,³¹ Mr. Fisher,³² Mr. Davies³³ and other representatives of their respective offices in attendance, at which the proposed policy and the general plan for the priority projects have been discussed.

Recommendations:

1. It is recommended that you approve the attached statement of policy to be used as a guide in planning for the utilization of the appropriation of \$75 million.

³⁰ George C. McGhee, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs.

³¹ Ernest A. Gross, Deputy U.S. Representative at the United Nations.

³² Adrian S. Fisher, Legal Adviser.

³³ John P. Davies, Jr., of the Policy Planning Staff.

2. It is further recommended that you approve the specified projects which are attached so that appropriate material may be presented to the President to obtain an allocation of funds for the purposes specified, summarized as follows:

China—Expansion of Information Program	\$ 1,010,000
Indonesia—Police Equipment for Constabulary	10,000,000
Thailand—Military Equipment	5,000,000
Burma—River Patrol Equipment	1,220,000
	\$17,230,000

[Annex 1]

Mutual Defense Assistance Act
“General Area of China” Planning Policy

It is recommended that the following statement be approved as the policy framework for planning under this program:

A. Plans for expenditures under Section 303 of the Mutual Defense Assistance Act of 1949 shall be based on the hypothesis that direct military aid to the Chinese National Government will not be provided. Planning on this assumption, however, must take into account the possibility of covert military assistance to provincial leaders in China.

B. Plans for expenditures shall be confined to those countries in the general area of China in which it is judged that owing to geographic propinquity or internal weakness, for reasons peculiar to the country or territory in question, the treatment of Communist domination resulting from Communist successes in China is deemed to be relatively the most dangerous in the area for the period between now and June 30, 1950.

C. The form of aid, whether arms, economic assistance, expanded propaganda effort or Point IV type of project, shall be decided on the basis of selecting the most appropriate and effective tools to achieve our objective of preventing, halting or reversing a trend of Communist domination in each particular country.

D. Expenditures under Section 303 in any particular country or for any particular purpose shall not be in substitution of funds otherwise appropriated for such place or purpose. Such expenditures, however, may be supplementary or additional where changed circumstances growing out of the present situation in China make expeditious action of this kind necessary to carry out the purposes and intentions of this Act.

[Annex 2]

*Proposed Assistance Projects
Mutual Defense Assistance Act
"General Area of China"*

CHINA

I. *Type of Program and Cost:*

Expanded Information Program.....	\$1, 010, 000
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II. *Description of Projects:*

1. Installation of two 50 KW medium-wave transmitters on Navy ships for operation off the coast of China (if determined to be feasible)	350, 000
2. Reimbursement to Navy for use of the vessels (estimated)	500, 000
3. Pamphlet program for production in the field; these pamphlets can be diverted to Chinese populations in other Asian countries if it proves impossible to distribute in China	50, 000
4. Poster program (as above)	50, 000
5. Book translations with subsidies to publishers; same conditions as for pamphlets and posters.....	50, 000
6. Reference book shipments to USIE libraries; same conditions as above.....	10, 000
Total.....	\$1, 010, 000

NOTE: In the event that it became possible to resume USIE operations within communist China, it is assumed that a portion of appropriate materials being produced for other countries in the area under this program would be made available to USIE-China. These would include: motion pictures, pamphlets produced in the United States, textbooks, English-teaching materials. Also, the expanded exchange of persons program would have to be considered from the China point of view in that event.

III. *Need of Assistance:*

It is at present impossible to reach most of the people in China with information about the U.S. and democracy, Russia and communism, except through broadcasts. The last relay point for these broadcasts now is at Manila, which gives only spotty reception in China. Relays closer to China are urgently needed.

Pamphlets, posters, and books are needed in both Nationalist and communist China where there is an extreme dearth of information of this type.

IV. *Advantage to the United States:*

All of the proposed measures would implement the United States Government's international information program which is designed to align public opinion in favor of the United States and to resistance to international communism. This program will assist in this presentation of the U.S. story both in Nationalist and in communist China. In communist China the most critical need exists since the communists utilize every possible means of disseminating Kremlin-dictated propaganda and employ police-state methods of preventing any other version from being read or heard. Unless the United States can make its voice heard, the communist propaganda is bound to take its slow effect through constant repetition of its vigorous line and the concomitant absence of any other version. Since the Chinese communist line is virtually identical to the Russian line, the ultimate result is likely to be a strongly anti-United States and pro-Russian recipient in China. Such an unfavorable climate of opinion would have a deleterious effect on all United States activities in China—trade, mission work, diplomatic effects—as well as on international situations involving the United States and China.

893.50 Recovery/10-3149

Memorandum by the Director of the Office of Chinese Affairs (Sprouse) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] October 31, 1949.

Reference is made to your memorandum of October 21³⁴ requesting information with regard to the status of shipments which have been made in accordance with Section 404(b) of the China Aid Act and to the oral estimate presented on that date. Best estimates at present, obtained from agency reports available in FE and from telephone conversations, indicate that materials costing \$4 to 5 million remain to be shipped. With the possible exception of a few items purchased by the Chinese through commercial sources and certain metals being purchased by the Bureau of Federal Supply, the balance of the shipments should be completed in December.

Mr. Yost in the Executive Director's Office is in the process of making a compilation of agency reports formerly submitted to Mr.

³⁴ Not printed.

Hall ³⁵ (OMB) and Chinese Embassy reports which were sent to CA. In the near future when these reports are consolidated that office will be in a position to provide more definitive information concerning expenditures and shipments.

As it presently appears that the bulk of the materials remaining to be shipped are either those purchased commercially by the Chinese or are metals, the shipment of which is being delayed by the steel strike, it would not appear feasible to expedite the shipment of a significant portion of the remainder of the program. The study of agency reports which is being made in the Executive Director's Office, however, may reveal certain items which might be expedited should it be considered desirable.

893.24/11-349

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to request his assistance in the procurement from the United States Government stocks of the following items of ammunition, which are needed urgently by the Chinese Government for defense in amphibian operations:

1. Bombs, Incendiary, 100 lb., AN-M47A2, loaded with Gelled Gasoline NP (complete round with Burster, Igniter, Fuze and Arming Wire) 5,000
2. Float Flare, MK17 Mod. 0, or Mod. 1 (complete round). (Note: II Float Flares are not available, AN-M26 Aircraft Parachute Flares (complete round with Fuze and Arming Wire) 5,000
3. Igniters for Fire Bombs, M13 (or M15) Sodium Filled (Na), complete with Arming Wire and External Attachment Clamp 6,500
4. Igniters for Fire Bombs, M14 (or M16) Sodium Filled (Na), complete with Arming Wire 3,000
5. Rocket Nose Fuze, MK137 for 4.5" H.E. Rockets 4,000
6. Rocket Nose Fuze, MK149 for 5" HVAR 5,200

Since such items of ammunition are not currently available in the market, special orders for their manufacture will require considerable time before they can be filled. It is understood that the United States Government has in its stocks a supply of such items, which, with the approval of the appropriate authorities, may be made available to the Chinese Government on a sales basis. The Chinese Government will appreciate it greatly if the United States Government would comply with this request. Should it not be feasible to release such items of

³⁵ William O. Hall, Director of the Office of Management and Budget.

ammunition on a cash sale basis, the Chinese Government would like to request that they be made available on a loan basis to be returned in kind pursuant to the procedure established for the loaning of a quantity of M.50 cartridges in 1947, which was replaced with products ordered from the Olin Industries, Incorporated.

In the event of the request granted either on a sales or loan basis, it is hoped that an arrangement can be made for the speedy delivery of such items of ammunition, preferably from the stocks of the Headquarters of General MacArthur in Tokyo.

The Ambassador will feel obliged if the Secretary would, together with the other authorities concerned, give the request his favorable consideration.

WASHINGTON, November 3, 1949.

893.00/11-549 : Telegram

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

CHUNGKING, November 5, 1949—9 a. m.

[Received November 5—6 : 09 a. m.]

Cantel 1259. Just prior to end of conversation with President Li reported next preceding telegram,⁸⁶ Pai Chung-hsi joined President stating he desired conversation with me. It seems apparent Li telephoned Pai to say that we were with him and he thus could talk with us after Li finished. On evening November 1 Pai had through Dr. Y. C. James Yen extended us invitation to dinner same night which we were unable to attend. Since then bad weather in Kweilin had prevented departure of Pai from Chungking, so this opportunity was seized for continuation of the barrage of pro-Li-Pai military and political aid arguments to which we were subjected previous 2 days by Dr. Yen (Cantel 1254, November 1 [2]⁸⁷) and Li Han-hun (Cantel 1257, November 4⁸⁸).

After departure of Li, Pai stated that Dr. Yen knew well political and economic aspects of present situation but knew little of military affairs; thus, Pai himself wished to present military side.

Summary his remarks follows:

Communists have roughly 4,800,000 regulars, well-equipped not only from former Nationalist arsenals but also with such quantity and

⁸⁶ No. 1258, November 4, 2 p. m., p. 407.

⁸⁷ Not printed.

⁸⁸ Vol. VIII, "Successive moves of the Embassy office in China . . .".

variety of American weapons that he believes USSR is supplying latter from military supplies received from US under lend-lease during late war. He noted as significant fact that Lin Piao is particularly well-equipped with American-made arms.

Nationalists have some 2 million regulars plus 300,000 wounded and sick. Nationalist forces now receive 25 ounces rice per day plus silver dollars 1.75 per month for supplementary foods, etc., and 1 dollar per month as pay. As result they cannot be disciplined thoroughly in matters such as helping themselves to food and fuel. Winter uniforms not yet issued to Nationalist troops although snow has already fallen some areas. Pai himself draws 27 dollars per month.

He then said US wanted Nationalist army to prove ability stand on final line of defense before would give aid. This, he asserted, was impossible under existing circumstances. In own case he claimed his troops can fight successfully against double their number of Communists, or under certain conditions thrice their number, but he can stand on line such as at Hengyang for one or possibly two major battles after which his force would no longer have combat value. To make permanent stand he needs reserve supplies and troop replacements. Former he does not have and latter he cannot train because of lack of money and weapons. He offered guarantee that with 20 well-equipped and well-paid armies he could hold southwest China and even begin push Communists back and advocated another advisory group to work with Central Government and said would welcome US officers to inspect or even supervise his own forces. Every cent which might be given him he asserted would be spent for purpose intended.

He concluded by saying Communists are international. U.S. has big stake in defeat of Communists in China and "immediate action is desperately needed".

We reiterated to Pai contents telCan 728, October 17 which previously stated to Chu Chang-wei (Cantel 1219, October 23³⁹) who on this occasion served as interpreter.

Throughout interview Pai was serious and at times seemed deeply depressed. As usual he was dressed in ill-fitting uniform of cheap material devoid of insignia. His contrast with the luxury of President's home and neat suits of Li and Chu was marked. We noted that heels of his shoes were built up to give him appearance of a greater stature.

Sent Department Cantel 1259, pouched Hong Kong, Kunming, Taipei.

STRONG

³⁹ Vol. VIII, "Political and military situation in China", chapter VIII.

893.24/11-949

Memorandum by the Ambassador to China (Stuart) to the Assistant Secretary for Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 9, 1949.

Subject: Interview with General Cheng Chieh-min ⁴⁰

On the evening of November 8 I spent several hours with him chiefly occupied in attempting to convince him in as kindly but positive a way as I could that any further expectation of military aid to the present Nationalist Government seemed to me to be fatuous. I told him that no formal decisions had been reached and that I was basing my opinion on the trend which seemed to me quite clear. Also that this indicated no change in our attitude to the Chinese people nor of any change in American anti-Communist determination; I personally had the highest respect for CKS ⁴¹ in his character and patriotic devotion, as well as for many others in the Nationalist Government and I knew that this was shared by my associates generally. The American Government and people still wanted to find some procedure by which they could help to retard the Communist movement in China. It was therefore purely a matter of what could be done with any hope of success.

He still questioned about the 75 million dollars and I told him that all that I had said above included this. In saying all this to him I told him that I would try to prove my friendship for him and those whom he represented in making this trip and suggested that he talk with you and any others to be sure that he understood the American position. He told me that he had discussed especially with Mr. Wang Shih-chieh the question of some sort of trusteeship for Formosa. I pointed out that if the matter were brought to UN it would certainly involve the abandonment of use of the island as an anti-Communist military base. It took some time to convince him that it could not both be under some sort of UN trusteeship and be maintained as the seat of the Nationalist Government in fighting Communists on the mainland.

We explored the possibilities of removing these features to Hainan or somewhere on the mainland but Cheng felt that Hainan could not sustain this additional influx of people and that there were other difficulties there which apply even more forcibly to any place on the mainland. It also came out that the Government would be very reluctant to lose the income from Formosan products which yield them now about 80 million dollars a year. They had determined to stay on the island and resist Communist invasion as best they could in a final sacrifice unless we could give them contrary advice (and assistance) or an appeal could be made to UN.

⁴⁰ Chinese Vice Minister of National Defense.

⁴¹ Chiang Kai-shek.

He also questioned me about our recognition of the new Government⁴² and I tried to explain our position as I understand the problem. While cautioning him against reading any more into my statements than I intended, we would not easily or lightly or hastily recognize the new regime, but our action would have to be determined more by facts than by feelings especially in view of the probable course of most of the countries concerned. I also pointed out the anomalies in continuing to recognize a so-called Nationalist Government in retreat to one island which might not be tenable very long and with no satisfactory retreats on Hainan or the mainland. The problem therefore, as I had tried to point out many times when in Nanking, was among themselves rather than in Washington.

893.24/11-2349

Memorandum by the Director of the Office of Chinese Affairs (Sprouse) to the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant)

[WASHINGTON,] November 10, 1949.

SHIPMENTS OF ARMS AND AMMUNITION TO CHINA

The Department of the Army has informally advised this Department that the tanks pictured in the November 8 issue of the *New York Times* were in all probability part of a group of tanks procured with funds from the \$125 million grants. Since the Chinese have purchased other tanks with funds from their own sources, it would not be possible to state with certainty whether these particular tanks were purchased under the \$125 million grants without a more intensive study by the Department of the Army.

Present policy with respect to shipments of materiel being procured for the Chinese Nationalists by agencies of this Government remains as set forth in the NSC memorandum of February 8, which specified that shipments should be continued but not expedited. With respect to commercial shipments, the Chinese have had access to the normal arms markets of this country since May 26, 1947. On August 22, 1948 [1949?] the question of this Government's making available to the Nationalists certain additional items of military materiel was referred to the Secretary after Ambassador Jessup, Dr. Fosdick⁴³ and Mr. Butterworth had approved the proposed transfer. The transfers were subsequently approved by Mr. Rusk.

⁴² See pp. 1 ff., *passim*.

⁴³ Raymond B. Fosdick, consultant on Far Eastern matters.

711.98/11-1449

*Memorandum by the Acting Secretary of State*⁴⁴

[WASHINGTON,] November 14, 1949.

POSSIBLE AID TO THE FORCES STILL OPPOSING THE CHINESE
COMMUNISTS

The President handed me the attached undated, unsigned memorandum with respect to possible aid to the forces still opposing the Chinese Communists. He asked that I read this and return it to him.

As the Secretary will have to discuss this matter with the President when he returns it on his next visit, please prepare an evaluation to form the basis of such discussion.

JAMES E. WEBB

[Annex]

MEMORANDUM

I

Russia's atomic bomb—Russian pressure for recognition of her acknowledged satellite, the Chinese Communist Government—the abandonment of Canton—all in a few weeks—force the United States again to decide what it is going to do about China.

Taken together, these events portend ominous consequences if the Chinese Communists are allowed to overrun all China for Russian account. If the Communists are allowed to consolidate all China—if no free space is left in which the liberal elements in China can find a base to reorganize—it is only a question of time when all Asia is beyond the possibility of cooperation with the West and is in the anti-American orbit.

With the highlands of South China in enemy hands, the lowlands of Burma, French Indo-China and Siam can not be held.

Without at least a year's delay in the Soviet timetable in China, even India will not dare to take the side of the West and risk being a Poland. The back door to Russia will then be completely closed. She can strike toward Western Europe or toward Alaska, without her old fears of complications in the rear of her trans-Ural war production.

In order to secure this long-term objective, the Russians have been most persistently and painstakingly supporting the Chinese Communists. Besides turning their powerful propaganda machine in the U.S.

⁴⁴ Transmitted to the Assistant Secretary of State for Far Eastern Affairs (Butterworth).

to win support for the Chinese Communists as mere agrarian reformers, Russia has poured vast quantities of Japanese and Czech arms into the Communist armies, and has assigned numerous advisers to the staffs of the Communist Generals, besides planning out all their campaigns for them. They have also sent entire detachments of Mongolian, North Korean and Japanese artillery, cavalry and technical troops to support the Communists. Contrasted with that, since the end of the war, U.S. assistance to China had been by fits and starts, and American Military advisers were precluded by their directives from giving any operational advice to the Nationalists.

The recent abandonment of Canton without more of a fight was a necessary logistical decision on the assumption that the U.S. had not made up its mind whether to help. In three months an allotment of funds advanced from the Formosan reserve by agreement between Chiang Kai Shek and the Executive Yuan that it would be the budget for an entire year, had become exhausted (see footnote).* This was due to the heavy fighting in the determined stand before Canton as the Communists pressed for a symbolical victory at the time of the Russian bid for the recognition of their puppet government.

To give up Canton was a terrifically cruel decision to take but the desperate Chinese leaders could only make their plans on the worst assumption; i.e. that U.S. aid might never arrive and that they would have to husband their remaining resources of money for last-ditch stands in more easily defendable locations. There they might have a better chance of surviving until any American help that might come would arrive.

Canton was not fought for—because at the going rate of attrition there would have been no money left to fight with anywhere—Canton or anywhere in a short while. Not to have defaulted would have been like the charge at Balaklava—“magnificent but not war.” The abandonment of Canton rightly understood does not mean the Chinese are giving up the war. Rather it means that they are intelligently trying to continue it.

**Secret—Not to be published or quoted*

By the end of May the Central Bank reserves consisted of (a) 4,000,000 oz. of gold and (b) silver and foreign exchange to the total value of U.S. \$20,000,000. During the last four and a half months, over and above any tax receipts which the long-exhausted countryside could furnish, the military and civilian expenditure of the Government absorbed all the silver and foreign exchange and nearly 2,000,000 oz. of gold, which latter, at the Chinese market rate of U.S. \$40 per oz., was equivalent to U.S. \$80,000,000. The drain on the reserves was therefore at the rate of U.S. \$22,000,000 per month. Even at that the troops and civilian officials were poorly paid with consequent low morale. Computing at this rate of expenditure, the remaining 2,000,000 oz. of gold in reserve could only last the Government another three months.

The above figures were never published despite insidious attacks against the Generalissimo for not giving the troops sufficient funds from Taiwan reserves, because knowledge of this rate of exhaustion would give comfort to the enemy. [Footnote in the source text.]

II

President Truman and Congress have stated their eagerness to help non-Communist China in any feasible way. With the fall of Canton it is time to resurvey the scene with a view to answering the following questions:

- A. What areas can and should be held against the Communists?
- B. What forces are available to hold such areas?
- C. What leadership is available—civilian and military?
- D. What assistance could the U.S. give?
- E. What means are available for such assistance?
- F. What are the prospects of success?

A. *What areas can and should be held against the Communists?*

The military situation in China today is comparable to that of the critical period during the war with Japan. The main objective was and is to defend the eastern boundaries of the provinces of Szechuan, Kweichow and Kwangsi. Attack and defense problems are expected to revolve around the familiar pattern of the previous struggle, but there is one major advantage to the Chinese Government that was not present during the war with Japan.

This is the possession of the islands of Taiwan and Hainan—the so-called “twin eyes of the Chinese dragon.” The importance of Taiwan is recognized. Equally important is the island of Hainan, because it links the Nationalist mainland with the outside world. The beachhead of Hainan is the Laichow Peninsula, and running thence through the mountainous terrain to link up with South West and Western China, Southwestern tip of Kwangtung, Kwangsi, Kweichow, Szechuan, Sikang and Yunnan (see map ⁴⁵). This bloc will be a barrier to the downhill infiltration of Chinese Communists into French Indo-China, Siam, Burma and India.

This bloc is economically self-sufficient, particularly in rice supply, as follows:

- (1) Szechuan —large surplus.
- (2) Sikang —small shortage, to be met from Szechuan surplus.
- (3) Yunnan —insufficiency, to be met from Szechuan surplus.
- (4) Kwangsi —self-supporting.
- (5) Kweichow —small shortage.
- (6) Hainan Island—short 40,000 tons a year, to be supplied from Taiwan.
- (7) Taiwan —self-supporting. It is proposed that an additional 150,000 tons of fertilizers shall be authorized for Taiwan under the E.C.A. economic aid program to increase the rice yield by some 150,000 tons for Hainan for military and other requirements.

⁴⁵ Map not attached to file copy.

B. *What forces are available to hold such areas?*

Troops of doubtful quality or loyalty have already been eliminated or have deserted, but there remains a loyal fighting force of over a million men :

Taiwan	250, 000
Laichow Peninsula and Kwangsi	300, 000
Hainan	50, 000
Kweichow-Hunan border	100, 000
Szechuan and Sikang	300, 000
Yunnan	100, 000

1, 100, 000 men

In the mountainous areas to which they have retreated, if they are well paid and munitioned, they could easily hold their ground against any force the Communists could send against them.

In addition to the ground troops, there are intact the main body of the Air Force and the Navy, which the U.S. Government helped to develop and train.

The Air Force personnel number 100,000 men, which is far superior to anything the Communists possess.

The Navy personnel number 50,000 men, which has been conducting an astonishingly effective blockade of Communist ports.

C. *What Leadership is available?*

New dynamic leadership is required to infuse new life into the fighting forces. Any change of leadership which the U.S. wishes made in order to make aid effective will be acceptable. The U.S. only needs to "indicate" what its opinions are.

Very tentatively it is suggested that the Commander-in-Chief should be Lieutenant General Sun Li Jen, a Virginia Military Institute graduate in his late forties, trained in India with General Stilwell, who made an outstanding record both during the World War and in fighting the Communists. He is well and favorably known to Americans, and is now Commander-in-Chief of the troops in Taiwan. He is a relatively young man but enjoys general confidence and will be definitely acceptable to both the Generalissimo and Acting President Li Tsung Jen, who can be counted on to give their entire support. If, in addition, it is known that American support in the shape of a military mission and financial and material aid will be back of General Sun, he will have complete authority over all the fighting forces, and will not be interfered with.

Equally important is a new civilian leadership. To coordinate with military reorganization, the Western trained liberals in China, who are crystalizing around Dr. Hu Shih to form the new Chinese Liberal Party, should be given political power to form a new cabinet. This new cabinet will command the enthusiastic support of all anti-Com-

munist elements. Again, whatever the U.S. "indicates" as desirable can be arranged. At this present juncture a "revolution by consent" could be obtained from the Kuomintang so that these liberals will be installed. It is the intent of the Chinese Liberal Party to inaugurate immediate military reforms, and to have a civilian as Minister of Defense.

D. What assistance could the U.S. give?

For the maintenance of troops, \$40,000,000 a month is required. This is broken up into:

1. Procurement of military supplies, consisting of the following major items:	\$10,000,000
Small arms	1.8 million
Small arms ammunition	3.0 million
Trench mortars and shells	.8 million
Petroleum products	1.2 million
Arsenal materials	.6 million
Air and Navy spare parts	.8 million
Air and Navy ammunition	.6 million
Vehicles and parts	.6 million
Miscellaneous	.6 million
2. Pay and maintenance for military personnel and operations:	\$30,000,000
Army personnel (in combat areas)	numbering 1,100,000
Air Force personnel	numbering 100,000
Navy personnel	numbering 50,000
International Volunteers	

The above are of course, only tentative estimates which may be modified after investigation by the U.S. Aid Field Mission mentioned below.

It is proposed that a budget should be made up for the five months up to and including February-1950, when the U.S. Congress will have been in new session for a month and will be in a position seriously to reconsider the China situation. This budget would amount to \$200,000,000; i.e. the \$40,000,000 per month detailed above.

To implement and supervise aid operations, it is proposed that a U.S. Aid Field Mission be created, to be headed by a high-ranking U.S. officer appointed by the President.

The U.S. Aid Field Mission shall have broad powers covering allocation, disbursement, and supervision of the U.S. Aid Fund, under policy directives approved by the President. What is most important is that the Mission should be able to give operational advice to the new Commander-in-Chief.

E. What means are available for such assistance?

Fortunately the bulk of these funds are already available, if the U.S. Government decides to employ them.

They are:

- (a) The \$75,000,000 China Military Aid Fund recently authorized by Congress;
- (b) Some \$80,000,000 still available under the 1948 China Aid Act for which no current or expectant procurement authorizations are pending; and
- (c) \$45,000,000 of stockpiling appropriation which could be made available in a way later described.

Both (a) and (b) † may be used in the manner and under terms and conditions to be determined by the President.

To provide the \$45,000,000 in (c), China would be able to make available to the United States, for purposes of stockpiling of strategic materials, such export commodities as antimony, tin, tungsten, tung oil and bristles.

Under present conditions an annual export of U.S. \$30,000,000 worth of the above-mentioned commodities can easily be made from the government-controlled area. The amount can be considerably increased if transportation facilities could be improved.

To be on the safe side, however, it is proposed that only \$22,500,000 per year be delivered. It is therefore suggested that out of the fund made available to the Army and Munitions Board under the Stockpiling Act (Public Law 520, 79th Congress), \$45,000,000 shall be allocated for the acquisition over the next two years of strategic materials in China. To assist in the military exigency and to stimulate China's export and economic recovery, it is further suggested that a lump sum advance payment of such \$45,000,000 should be made available to the new Chinese Government, through and under the supervision of the U.S. Aid Field Mission.

Against this payment, it is suggested that the Chinese Government undertake to make delivery as follows:

	Availability (Production per year)	Deliveries		Total Deliveries	
		1st year	2nd year	Quantity	Value
Tin	6,000 tons	4,000 tons	4,000 tons	8,000 tons	\$16,000,000
Tungsten	1,000 tons	500 tons	500 tons	1,000 tons	800,000
Bristles	15,000 cases	10,000 cases	10,000 cases	20,000 cases	7,400,000
Tung oil	50,000 tons	20,000 tons	20,000 tons	40,000 tons	20,800,000
Total:					\$45,000,000

From these three sources (a), (b) and (c), a total of \$200,000,000 would be available for the resistance budget through February-1950.

There remains what may be left of the gold reserve in Taiwan, which, along with tax receipts, could be used to maintain the currency,

†In the case of (b), current legislation requires that the uses should be consistent with the purpose of the China Aid Act. To ensure that the President shall have a free hand to apply the fund in what he considers to be the most direct and effective way, it should be kept in mind that eventual action would be taken to secure supplementary Congressional authorization to the effect that the fund may be used "without regard to the provisions of the Economic Cooperative Act of 1949." [Footnote in the source text.]

defray administrative expenses, or be pooled for military purposes under the overall allocations of the U.S. Aid Field Mission.

F. *What are the prospects of success?*

The Chinese Communist troops are flung out on long lines, ill-served by transportation. They have now arrived at Chinese mountain positions which the Japanese Imperial Army, with much better organization, with sea transportation, and much better fighting qualities and morale, were never able to penetrate. The quality of the Chinese Communist troops has sharply deteriorated as repeated clashes recently have shown. In addition, the ideology and methods of the Communist leaders have alienated the population which at first welcomed them and believed in their impossible promises.

Canton could have held out indefinitely had it not been for the heavy cost of upkeep and the major decision to eke out the remaining reserves for the longest possible time without foreign aid.

Ensnared in such difficult terrain, the Nationalist troops—with pay assured—with new military and political leadership—and, above all, with the tremendous morale uplift given by definite U.S. support—have every reason to believe that these limited self-sufficient areas could be held:

A. As a maximum, until such time as the situation in Communist-controlled areas furnished a chance for successful military counter-offensive from such free areas.

B. Probably worth just as much, until such time as the very existence of a free China in such free areas would lead to internal dissatisfaction and a self-starting counter revolution in the Communist-controlled areas by the constant incitation of the inherent Chinese desire to be free of foreign domination.

C. *At the very least*, long enough—a year or two—to give a chance to organize a line of Asiatic resistance to Communism further back, by containing the military and revolutionary resources which a Soviet organization, having conquered and consolidated China, could turn loose, one by one, on much easier targets to the south. And finally, if Nationalist China completely collapses and the member nations in Asia change their alignment, the balance of power in the Assembly and in the Security Council of the United Nations will be changed to the lasting detriment of the U.S.

The Chinese people and army have been struggling against a disguised foreign invasion for many years. They have suffered from repeated reverses. Feeling isolated and frustrated, they need a new hope which only the restoration of U.S. aid will furnish. *But time is of the essence.*

893.50 Recovery/11-1849

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 18, 1949.

I understand from Mr. Perkins⁴⁶ that Mr. Bevin⁴⁷ indicated to Mr. Acheson in the course of the conversations in Paris that his Government fears that war materials on Formosa would ultimately pass into the hands of the Chinese Communists and would possibly be used against Hong Kong or elsewhere. Mr. Bevin inquired whether we were continuing to ship arms and other war materials to Formosa. The Secretary said that he would look into the matter and let the British Government know what the position was.

I explained to Mr. Perkins about the \$125 million and agreed to give Mr. Graves⁴⁸ a report on its status. However, I also indicated that the \$75 million was involved and that it was undesirable at this time for the Secretary to seek from the President a government determination; that this in effect would eventuate from the NSC paper on Asia which was now at the consultant level.

Would you please prepare for me a memorandum which I can hand to Graves on the \$125 million?

893.6363/11-1049

Memorandum of Conversation, by Mr. Richard E. Johnson of the Office of Chinese Affairs

[WASHINGTON,] November 18, 1949.

Subject: Proposed Sale by the Navy of Lub Oil for Vessels Sold China under PL-512.⁴⁹

I discussed this proposed sale with Captain Floyd of the Navy who pointed out that under the terms of PL-512 and the implementing Executive Order 9843,⁵⁰ the Secretary of the Navy is authorized to transfer materials to the Chinese Navy which he deems necessary for the operation of vessels transferred under PL-512, on a cash reimbursable basis. This authority is however subject to the approval of the Secretary of State, if he determines the transfers to be in the public

⁴⁶ Troy L. Perkins, officer in charge of Political Affairs in the Office of Chinese Affairs.

⁴⁷ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁴⁸ Hubert A. Graves, Counselor of the British Embassy.

⁴⁹ Approved July 16, 1946; 60 Stat. 539.

⁵⁰ Signed on April 25, 1947, Department of State *Bulletin*, May 4, 1947, p. 821, or 12 *Federal Register* 2763.

interest. These transfers may be made for a period of five years from the date of enactment of PL-512 or until July 15, 1951. Captain Floyd concluded that the proposed sale would thus appear to be fully covered by legislative authority, and stated that the Navy was perfectly agreeable to concluding a contract, provided Secretary of State determined the sale to be in the public interest. He pointed out that no transfers of maintenance materials had been made under PL-512 for some time and presumed that approval of this sale would lead to further requests of the same sort, perhaps for diesel oil or gasoline, in the future—providing the Chinese can scrape up the necessary dollars.

He added that the fuel would probably come from commercial refineries at Richmond, California or Houston, Texas, and that under the standard Navy contract the Navy would assume the responsibility for delivery of the fuel to Formosa. He was unable to suggest exactly why the Chinese are anxious to get this lub oil through the Navy, since procurement from commercial sources in the United States and cash reimbursement in dollars are involved in any case, but remarked that possibly the Chinese believed they could obtain delivery more quickly and at a lower cost through United States Government sources.

Captain Floyd indicated that he was most anxious to obtain a prompt response from the Department and I told him we would try to have an answer this afternoon.

711.93/11-1949

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] November 19, 1949.

There is attached a memorandum for the President appraising and commenting on an undated, unsigned memorandum proposing aid to forces in China still opposing the Chinese Communists which the President handed to Mr. Webb on November 14 in your absence. The President requested that the memorandum be returned to him after it had been studied by the Department.

Although much of the information given in the memorandum which has been prepared for the President was covered in his discussion with the consultants and although the basic thesis of the unsigned memorandum has been further outmoded by recent events (particularly with the Communists now knocking at the doors of Chungking), it is recommended that you hand the memorandum to the President when you see him on November 21 in order that he may study it at his leisure.

[Annex]

*Draft of Memorandum for President Truman*⁵¹

Subject: Proposed Aid to Forces Still Opposing the Chinese Communists

Reference is made to the attached undated, unsigned memorandum (Tab A) which you handed to Under Secretary Webb on November 14 in my absence. In accordance with your request we have studied this memorandum and have prepared for your information an appraisal of its contents.

The subject memorandum is well-reasoned argument for military assistance to the remaining organized resistance forces in China. This argument, however, must be rejected on the ground that it proceeds from an inadequate appraisal of the relevant facts. Certain questions of detail aside, the vital defect in the thesis argued is a gross overestimate of the present and potential strength of Chinese resistance forces relative to their Communist adversaries. The nature and extent of this overestimate may be summarized in the following points:

(1) Contrary to the assertion in the subject memorandum, the strategic position of Nationalist forces on the Chinese mainland is today markedly worse than that of the Nationalist armies at the lowest ebb of their fortunes in their war against Japan. Communist advances beyond the Yellow River bend and into central Kweichow have overrun vital natural barriers essential to the defense of Szechwan Province. Japanese forces never penetrated those barriers.

(2) Mainland areas under non-Communist control, contrary to the assumption made in the subject memorandum, are economically self-sufficient only in a technical, arithmetical sense. The grain surpluses of Szechwan could, it is true, offset the grain deficiencies in other non-Communist areas. But the recent loss of Kweiyang to the Communist forces has eliminated all possibility of transferring the Szechwan surplus to more needy provinces.

(3) The data presented by the subject memorandum on the strength of anti-Communist military forces in China do not correspond with the most recent estimates of CIA. The subject memorandum contends that a "loyal" fighting force of 1,100,000 men now oppose the Chinese Communist armies. The most recent CIA estimate shows a total of only 676,000 of combat effectiveness. Moreover, many of these troops are ill-trained provincial levies. CIA, in a recent report concurred in by the other intelligence agencies, has stated that Nationalist forces are "characterized by low morale, poor leadership and loss of will to fight".

(4) On the question of the leadership of anti-Communist forces in China, the subject memorandum appears to be especially over-optimistic. Deficiencies in present leadership are recognized, but it is argued that U.S. aid can be used as a means of bringing new and

⁵¹ Apparently not handed to President Truman.

more efficient men to posts of responsibility in the fight against Chinese Communism. The failure of repeated attempts in the past to achieve precisely this objective unfortunately argues against the probability that another such attempt will succeed at the present time. No reason exists for believing that Chiang Kai-shek is more willing than formerly to relinquish his position as predominant leader of the anti-Communist resistance forces in China. Nor is there reason to believe that the previously impotent and divided liberal elements in China will at this late date rally and assume effective control over the remnants of the Nationalist Government.

(5) The brief treatment accorded the present strength of Chinese Communist forces in the subject memorandum may perhaps indicate a reluctance to face the realities of the present unpleasant situation in China. No convincing evidence can be found to support the contention that Chinese Communist forces are overextended or that their combat effectiveness has in any way been reduced. On the contrary, recent victories in Kwangtung have freed Communist armies for the conduct of a final offensive in overwhelming numerical strength against the scattered Nationalist remnants in southwest China. Because of their great superiority, moreover, the Chinese Communists are in a position to accelerate the speed of their conquest of the Chinese mainland, if U.S. aid to Nationalist remnants were to render such action necessary. The present disposition and strength of the opposing forces has been noted on the attached map of the military situation in China which has been revised to show the most recent information available (Tab B)⁵².

The policy recommendations of this subject memorandum must be weighed in the light of the relevant facts concerning the present situation in China. The memorandum argues that U.S. aid of a magnitude calculated to meet the current needs of existing anti-Communist resistance forces in China will either insure the indefinite survival of those forces or buy time needed by the U.S. to prevent the further expansion of Communism in Southeast Asia. Achievement of the first of these two results unfortunately appears to be entirely out of the question. The possibility that the aid program proposed in the subject memorandum would serve the interests of the U.S. by delaying the final Communist victory in China deserves more attention.

Of the non-Communist areas immediately adjacent to China the timing of a Chinese Communist victory would appear to be of critical importance only in the case of Indochina. In Indochina, a year's respite from Communist pressure on the area's northern border would perhaps render feasible measures to increase the life expectancy of the Bao Dai regime. It must be emphasized, however, that what is relevant in the case of Indochina is not the date of final liquidation of the last

⁵² Map not attached to file copy.

organized resistance in Kwangsi and Yunnan if it is to achieve its minimum objective of buying time for the prosecution of U.S. policy in Southeast Asia. These two provinces unfortunately are not suitable bases for large armed forces. As in the war against Japan, Szechwan is the key to continued resistance. Current successes of Communist armies in their drive against Szechwan, it must be noted, cast serious doubts on the feasibility of any program to prolong organized resistance on the Chinese mainland.

A further and equally valid reason for rejecting the argument in the subject memorandum is the political and military disunity presently existing in the Nationalist China. In this connection there is attached (Tab C) a telegram from our Embassy in Chungking⁵³ which emphasizes (a) that hope no longer exists that progress toward political and military unity or reform can be achieved in southwest China; (b) that the military scene is one of retreat, defection, uncorrelated commands and mutual distrust; (c) that there is no prospect of healing the deep breach between the Generalissimo and the Li-Pai groups; and (d) that disintegration is apparent in all fields and is likely to increase in geometrical progression.

The general conclusion to be derived from an examination of the thesis presented in the subject memorandum is, therefore, that a program of U.S. aid to organized forces resisting the Chinese Communists would not only be unproductive of the desired results but might react to the disadvantage of the U.S. by reason of the absence of any valid assurances that such aid would not eventually fall into the hands of the Chinese Communists. It is of course obvious that failure of the U.S. in such a venture as that proposed would inevitably cause the further lowering of U.S. prestige which has already suffered seriously from the course of events in China.

893.6363/11-1049

Memorandum by Mr. William McAfee of the Office of Chinese Affairs

[WASHINGTON,] November 23, 1949.

Reference: Memorandum of Conversation of November 18, 1949 entitled: "Proposed Sale by the Navy of Lub Oil for vessels Sold China under PL-512".

⁵³ See Cantel No. 1281, November 15, 11 a. m., from the Chargé in China, vol. VIII, "Political and military situation in China", chapter VIII.

Mr. Sprouse discussed the proposed transaction with officers in FE. It was decided that it would be appropriate for the Department of the Navy, should it desire to do so, to assist the Chinese in the procurement of the desired oils. It was indicated, however, that shipment of the material to Taiwan should in no case be made in a United States Naval vessel and that normal commercial vessels should be employed.

Mr. McAfee informed Captain Floyd, Op.-411M, Department of the Navy, of the Department's views on November 18. Captain Floyd indicated that shipment would be made in commercial vessels probably from a Gulf port.

893.24/11-2849

Memorandum by the Director of the Office of Chinese Affairs (Sprouse) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 28, 1949.

Reference is made to your memorandum of November 18, 1949 requesting information which could be transmitted to Mr. Graves concerning the present status of the \$125 Million Grants to China. Mr. Yost (FE) obtained from U.S. Government agencies a report on the status of materials yet to be transferred by those agencies under the Grants. In order to check on shipments of military materiel purchased by the Chinese Government through commercial sources CA requested the Munitions Division to provide data on approved but as yet unused export licenses covering such shipments. The data provided by the Munitions Division includes shipments of materiel procured commercially under the \$125 million program. A consolidated picture of significant items which remain to be shipped, derived from the reports of Mr. Yost and the Munitions Division, is provided in the attached memorandum which may be handed to Mr. Graves.

[Annex]

Memorandum Prepared by the Office of Chinese Affairs

A list of military materiel procured or being procured for the Chinese Government by agencies of the U.S. Government under the \$125 Million Grants which has not yet been shipped is as follows:

ESTIMATED AS OF NOVEMBER 1, 1949

	<i>Quantity</i>	<i>Value</i>
Light tanks	100 ea.	
Scout Cars, M3A1	100 ea.	
Motor carriages, 75 mm. Howitzer	125 ea.	
Rifles, Auto., Brng., M1918A2 (BAR)	1, 000 ea.	
Mounts, combination, M23A1 for 37 mm. Gun (used on light armored car)	100 ea.	
Shells for 4.2" Chemical Mortar	25, 000 ea.	
Tires (various)	7, 000 ea.	
Automotive spare parts		\$1, 680, 000
Weapons spare parts		85, 000
Tools and tool sets		240, 000
Raw materials (inclusive of gun powder)		1, 850, 000
Antimony sulphide (for vulcanizing rubber)	5, 000 lbs.	
Gyro stabilizers	100 ea.	
Dry batteries	40, 000 ea.	
Radio sets	600 ea.	
Radio spare parts		6, 500
Electrical equipment (including one 5 KW Diesel driven generators per set)	12 sets	
Medical supplies and equipment		995, 000
Vacuum tubes		47, 000
Naval spare parts (hull and engi- neering spares)		265, 000
Aircraft spare parts		305, 000
Plastic film		80, 000

The foregoing is a listing of significant unshipped items. Miscellaneous other items requested by the Chinese Government remain to be procured and/or shipped. A rough estimate of the dollar value of all unshipped items, by federal agencies concerned, is as follows:

Army	\$6, 793, 500
Navy	310, 000
Air Force	390, 700
Treasury—Bureau of Federal Supply	500, 000
	<hr/> \$7, 994, 200

The following list covers military materiel being procured by the Chinese through commercial sources in this country on which as yet unused export licenses have been issued. Some of the items listed are being procured with funds from the \$125 Million Grants, but the exact quantity of such items is not known.

A. *Items other than Aircraft and Aircraft Parts*

1. Items approved for export

	<i>Quantity</i>	<i>Value</i>
Drop steel forgings		\$4, 550
Tank spares	400 tons	60, 000
Motor carriages tracks	40 sets	19, 000
Motor carriages (in transit from U.K.)	30 ea.	\$75, 000
Sherman tanks (in transit from U.K.)	85 ea.	300, 000
Powder and ammunition		205, 475
Propellent flakes and powder		666, 520
Cartridges (in transit from Canada)	81, 000, 000 rnds	4, 900, 000
Ammunition, * .30 caliber		21, 281
Shot firing cord		4, 570
Motor carriages*	42 ea.	100, 000
Light tanks and dozers	9 ea.	72, 000
Mauser rifles & ammunition, 7.9mm (in transit—Belgium)		4, 215, 000
Mauser rifles & machine guns, 7.9mm (in transit—Belgium)		559, 100
Telescopes and periscopes		2, 300
Gun-sights		1, 000
Gun-sight noise filters		45
Smokeless powder		3, 355
Rocket igniters		5, 500
Tanks spare parts*	200 tons	30, 000
2. Items not yet approved for export but requested by the Chinese Government.		
Used light armored cars*	200 ea.	\$50, 000
Used tanks with flame throwers*	4 ea.	8, 000
Tracked landing vehicles*	156 ea.	75, 000
Staghound armored cars (in transit from U.K.)	200 ea.	200, 000
Rifles and machine guns (in transit from Belgium)		84, 000
Machine guns (in transit from Belgium)	3, 000 ea.	1, 395, 000

B. *Aircraft and Aircraft Parts*

There are still valid export licenses for approximately \$6,800,000 worth of aircraft and aircraft parts purchased commercially by the Chinese Government. As this total includes some \$2,700,000 for 180 AT6 aircraft which have been reported by the Chinese to have been shipped on a continuing basis throughout this year, it is believed that

*Items for which the Chinese have made arrangements with Commerce International Trading Corporation for purchase from U.S. Army surplus stocks. [Footnote in the source text.]

a good portion of the \$6,800,000 total has already been shipped, though customs reports on such shipments have not yet reached the Department.

893.24 FLC/12-149

Memorandum by Mr. Walter E. Jenkins of the Office of Chinese Affairs to the Director of the Office (Sprouse)

[WASHINGTON,] December 1, 1949.

Colonel Smith of the Department of the Army has requested the advice of the Department concerning the expediting of a shipment of fifty scout cars to Taiwan. Colonel Smith was informed by Colonel Li of the Chinese Embassy that the Chinese were in need of an immediate supply of scout cars which proved very effective in the recent Chin Men Tao⁵⁴ battles and that the Chinese Government had instructed him to request that the Department of the Army have ready for shipment by December 5 fifty vehicles of this type which are now being requisitioned by the Department of the Army from current surplus stocks.

Colonel Smith has indicated that with a considerable amount of expediting the Army could meet the Chinese request provided the Department was of the opinion that such procedure was justified.

As instructed I informed Colonel Smith in a conversation of Wednesday, November 30 that the Department deemed it advisable from a policy standpoint to expedite the shipment provided that the Department of the Army considered it desirable from a military point of view. Colonel Smith informed me that officers in P and O⁵⁵ considered it desirable to expedite the shipment and that he would act accordingly.

893.24/11-349

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to his note dated November 3, 1949 regarding the desire of the Chinese Government to obtain certain incendiary bombs, float flares, bomb igniters, and rocket fuzes for use in amphibious defense operations.

This request is receiving the consideration of the appropriate authorities, and it is expected that a final reply will be possible in the near future.

WASHINGTON, December 6, 1949.

⁵⁴ Quemoy Island.

⁵⁵ Plans and Operations.

893.24/12-2149 : Telegram

*The Consul General at Peiping (Clubb) to the Secretary of State*PEIPING, December 21, 1949—5 p. m.
[Received December 23—2:21 a. m.]

2332. Express opinion re Depintel December 15, 4 a. m.⁵⁶ that support such Chinese leaders as Chiang Kai-shek, Tu Yueh-ming and Fu Tso-yi, to mention only three, has given enough experience, notably in events of past year, to show that support any self-reputed anti-Communist guerrilla forces would be unprofitable and politically dangerous. Nationalist guerrillas during Sino-Jap war regularly turned over to enemy. USA has given enough munitions to Nationalists to meet any guerrilla needs if they were desirous fighting, but note from reftel Nationalists themselves refuse provide money, arms and supplies in present instance. Fact of matter is there remains in field on mainland no force capable and willing put up good fight against Communists. It would be either naivete or desire for gain that would lead those reputed guerrilla leaders approach Americans, and any arms given would in all probability end up in Communist hands as has so much other American equipment.

Re enthusiasm these leaders profess re their ability "spark deterioration" Communist regime, would only note Chinese are always filled with enthusiasm for far-reaching projects and deep laid plans but events past year prove to any objective observer that Kmt program of opposition to Communists is flat failure. Economic deterioration Communist regime is [garble] by reason objective causes unrelated guerrilla efforts that deterioration will continue whether or not Americans give arms to guerrillas. Note that wartime experience of such supply of arms would inevitably be discovered and Chinese security leads inevitably to conclusion any favor to us would operate politically against rather than in favor of USA. It is essence of political wisdom at present time to maintain policy non-interference, than [*that?*] is, to continue "let Chinese stew in own juice" in conditions where they have nobody but themselves and USSR to blame for their predicament. Recommend most strongly that policy be followed.

Sent Department 2332. Department pass AmPolAd Tokyo.

CLUBB

⁵⁶ Not printed; it reported an Associated Press news item regarding possible aid to Chinese on Formosa (800.00 Summaries/12-1549).

UNITED STATES ECONOMIC AID TO CHINA

I. ENACTMENT OF LEGISLATION FOR CONTINUATION OF AID TO CHINA AFTER EXPIRATION OF CHINA AID ACT OF 1948¹

893.50 Recovery/1-2949

Memorandum Prepared in the Office of Far Eastern Affairs

[WASHINGTON, January 14, 1949.]

CHINA: CONTINUATION OF U.S. AID TO THE CHINESE NATIONAL GOVERNMENT AFTER APRIL 3, 1949

Problem:

To determine whether the Department should support a recommendation that Congress authorize funds for extension of aid after April 3, 1949, to the present Chinese National Government, or to a legal successor Government of similar complexion, if such a government controls significant areas of China at that time.

Background:

Despite extension of aid to the National Government under the China Aid Act of 1948,² the Chinese Nationalist armies have suffered major defeats by the Communists and are being driven back steadily, while the economic position of the National Government continues to deteriorate rapidly. The Communists now hold Manchuria and practically all of China proper north of the Hwai River, except for Peiping, Tientsin and Tsingtao, and they appear to be in a position to gain control of Peiping, Tientsin, Nanking, Shanghai and Hankow by military or political means within a relatively short period of time and on their own terms. Thus, while it is impossible to foresee what political maneuvers will take place, it is probable that by April 3 or shortly thereafter, effective control by the present National Government will not extend beyond a limited part of the Southeast China coast and/or Taiwan.³ Although large areas of south and west China might still remain under non-Communist leadership, the probable loss by the National Government of much of its administrative apparatus

¹ For previous correspondence on this subject, see *Foreign Relations*, 1948, vol. VIII, pp. 442 ff.

² Approved April 3, 1948; 62 Stat. 158.

³ For correspondence on Formosa policy, see pp. 261 ff.

and of its military forces would make impossible the maintenance of effective control over such areas.

Unless there should be an unexpected and unprecedented improvement in the administrative and military operations of the National Government and in the will to fight of its armies, it is unlikely that the Communists would have great difficulty in expanding their control throughout south and west China if, as soon as they consolidated their position in the north, they chose to move southward. Under present conditions, only the extension of unlimited U.S. economic and military aid, involving extensive control of Chinese Government operations by American military and administrative personnel, and including the immediate employment of U.S. armed forces to block the southern advance of the Communists, would enable the National Government to maintain a foothold in south China against a determined advance by the Communists. On the other hand, the isolated position, limited area and economic viability of Taiwan offer some prospect that a non-Communist government on Taiwan might be able to withstand Communist control of that island indefinitely.

The Department's view has been that, under existing circumstances, involvement of the U.S. in the Chinese civil war by unlimited extension of aid of great but unpredictable dimensions, and direct supervision in the field of Chinese military operations, or by use of U.S. armed forces in China, would be contrary to U.S. interests. While there is little prospect that a continuation of aid on the present scale would contribute effectively to resistance against the Communists on the Chinese mainland, the political disadvantages, both domestic and international, of an abrupt cessation on April 3, 1949 of economic aid to the Chinese Government that we continue to recognize would be considerable. Moreover, it is possible that additional U.S. aid could be an important factor in stabilizing the situation on Taiwan and in enabling the emergence of a relatively strong government on that island.

Action Taken:

Consideration is being given to an ECA ⁴ proposal that Congress be requested to amend the China Aid Act of 1948 to permit obligation of funds through June 30 or September 30, 1949. If such a request were made and were approved by Congress, it would enable expenditure during this period of funds now authorized but unavailable—namely, (1) \$63 million unappropriated which Congress would be asked to appropriate, and (2) some \$60 million earmarked by ECA for industrial replacement and reconstruction, but suspended due to recent military developments. It is believed that, in view of the legislative

⁴ Economic Cooperation Administration.

history of the Act, ECA should obtain concurrence of Congressional Committees concerned if diversion of reconstruction funds to commodity procurement were to be undertaken. These steps would enable ECA to continue its present rate of commodity shipments to China through the third or fourth quarter of 1949, and to carry forward an industrial program for Taiwan. A request to Congress for further extension of the Act and for additional funds could be made before the end of the present session if the situation in China were then to warrant such action.

893.50 Recovery/1-2949

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*⁵

[WASHINGTON, undated]

Problem: What ECA proposals to Congress for continuation of U.S. aid beyond April 3, 1949 to non-Communist areas of China should be supported by the Department?

Discussion:

Section 404(a)⁶ of the China Aid Act of 1948 authorized appropriation of \$338 million to be administered by the ECA, such appropriation to be available until April 3, 1949. The Congress appropriated \$275 million⁷ pursuant to this authorization, leaving \$63 million unappropriated. The Act did not specify the purposes for which the appropriation should be used, except that it provided that not more than 10 percent of the appropriation, either in Chinese or U.S. currency, might be used for a program of rural reconstruction in China. In the course of Congressional hearings, however, it was indicated that \$60 million would be set aside for industrial reconstruction projects.⁸ The balance of the appropriation, approximately \$200 million, was programmed for cereals, cotton, petroleum, fertilizer and coal for current consumption primarily in the major cities of east China and in Taiwan.

A prompt decision is required on the problem since Congress can be expected to call for an early presentation by ECA on the matter and

⁵ In a conversation with ECA aides on January 29, Mr. Butterworth asserted that the Department's views were as recommended in this memorandum. The ECA concurred.

⁶ 62 Stat. 159.

⁷ Public Law 793, approved June 28, 1948; 62 Stat. 1054.

⁸ *Foreign Aid Appropriation Bill for 1949*: Hearings before the Sub-Committee of the House Committee on Appropriations, 80th Cong., 2nd sess. (Washington, Government Printing Office, 1948), pt. 2, p. 374.

review by the Bureau of the Budget will be necessary before final recommendations can be made to Congress. ECA has taken the position, concurred in by the Department, that the present degree of deterioration and uncertainty in China makes it inadvisable at this time to request legislation for any part of the fiscal year 1950, but that Congressional authorization should be obtained to enable continuation of the program until June 30, 1949. It is anticipated that before that date the Chinese situation would clarify itself sufficiently so that if Congressional action were required for fiscal year 1950 it could be obtained before adjournment.

In order to enable continuation of the program until June 30, 1949, ECA has proposed to the Department that the following recommendations be made to Congress.

(1) Amendment of the China Aid Act of 1948 to permit expenditure of unobligated funds through June 30, and to authorize the President to direct ECA aid to either the National Government of China or to such other beneficiary in China as he might determine; (2) Appropriation of \$63 million now authorized but unappropriated under Section 404(a) of the Act, and provision for an RFC⁹ advance pending such appropriation.

Representatives of the Department and ECA are agreed as to the desirability of recommendation (1) above. Almost all of the \$60 million which was earmarked initially for industrial reconstruction in China remains unobligated as a result of Mr. Hoffman's¹⁰ recent decision to suspend procurement under that phase of the ECA China program. If, in view of the legislative history of the Act, ECA could in the course of its presentation obtain concurrence of the Congressional Committees concerned for diversion of these earmarked funds, in whole or in major part, into procurement of basic consumption commodities, these funds, together with other unobligated appropriations under the Act, might well constitute as much as \$70 million with which the aid program could be carried on between April 3 and June 30. As a result of the inaccessibility of North China, these unobligated funds should be sufficient to enable ECA to (a) continue procurement of consumption commodities for central and south China and Taiwan at substantially the present rate, (b) complete part or all of ECA's present industrial program for Taiwan (approximately \$14 million), and (c) continue the program of the Joint Commission for Rural Reconstruction in China.¹¹ It is quite possible that before or during the April-June period Shanghai and Hankow as well as Nanking will come under

⁹ Reconstruction Finance Corporation.

¹⁰ Paul G. Hoffman, ECA Administrator.

¹¹ For correspondence on negotiation of agreement establishing the Commission, see *Foreign Relations*, 1948, vol. VIII, pp. 601 ff.

Communist control, in which event commodity requirements would be more than cut in half. Such a development would permit considerable expansion of aid with existing funds for Taiwan and South China if desirable. Recommendation (1) would also provide the President with sufficient discretionary authority so that aid could be extended, if necessary, to cities of the Chinese mainland or to Taiwan in the event that such areas were no longer under the control of the recognized National Government of China but had not come under Communist control.

Beyond this, however, ECA has urged that the Department support recommendation (2)—appropriation of the \$63 million authorized but unappropriated. ECA proposes that this appropriation be requested as a “contingency fund” and that, although its expenditure could not be programmed definitely for the April–June period, the request should be justified in executive session Congressional hearings by reference to the following possible contingent uses:

(1) It may be necessary to provide food for the entire population of Shanghai if the Communists should by-pass that city and cut off its access to indigenous food sources.

(2) It might make possible the completion or expansion of ECA’s industrial projects in remote areas, such as Yunnan Province, which might achieve a degree of local autonomy as a result of unpredictable political alignments in China. The continued availability of funds for industrial reconstruction on the Chinese mainland might provide significant moral support to non-Communist Chinese since ECA’s industrial projects represent the only constructive aspect of the China aid program.

(3) It could be used to support the programs of private American relief agencies operating in Communist-controlled areas of China. The U.S. could, in this way, demonstrate its continuing interest in the welfare of the Chinese people without incurring the disadvantages of a direct U.S. Government operation in Communist areas.

(4) It might be used for an expanded program of aid to Taiwan.

ECA representatives have argued that unless the U.S. Government indicates a continuing interest in aid to China by making available the \$63 million “contingency fund”, which could be useful as a “diplomatic weapon”, it will be evident that the U.S. is merely winding up its China aid effort, and that this would call into serious question the advisability of extending the aid program beyond April 3 at all.

The analysis and appraisal of the situation in China contained in reports from the Embassy, the consular offices and the U.S. military representatives present a picture which would make it extremely difficult, if not impossible, in turn to present any factual justification to the Bureau of the Budget or Congress for appropriation of a \$63 million “contingency fund” to be available for expenditure before

June 30 in addition to the \$70 million that should remain unobligated as of April 3, 1949. Mr. Lovett¹² read the pertinent portions of certain of these reports to the Senate Foreign Relations Committee and it can be assumed, therefore, that Congressional leaders are not unaware of the current prospects for the Chinese National Government. (See Problem Statement—"Background"—Tab A)¹³.

It is not believed that the particular uses suggested by ECA for the \$63 million "contingency fund" could be supported by the Department for the following reasons:

(1) ECA may regard its participation in the food rationing program of Shanghai, and Mr. Lapham's¹⁴ public assurances regarding U.S. support for this program, as in effect obligating the U.S. to meet Shanghai's food requirements in the event of an emergency. American interests in Shanghai, however, are not such as would warrant a commitment by the U.S. to provide the entire, or the major portion of Shanghai's food requirements if that city should be cut off from its hinterland. The British, who have many more nationals in Shanghai than the U.S. and who could provide food from sterling sources, and Chinese residents of the city, many of whom undoubtedly have substantial foreign exchange holdings, should be expected to participate in the procurement of emergency food supplies. U.S. aid to Shanghai during a period of transition from Nationalist to Communist control probably should not exceed pre-existing ECA programmed deliveries of food and petroleum to that city.

(2) There is little, if any, prospect that remote provinces on the Chinese mainland will remain free of direct or indirect Communist control more than temporarily. U.S. aid for industrial reconstruction in such areas would, in all probability, become a gift to the Communists. Such justification as existed for U.S. aid to industrial reconstruction on the Chinese mainland when the present ECA program was formulated is now entirely lacking.

(3) Provision of U.S. Government funds to private American relief agencies for operations within Communist-controlled areas of China would differ only in form from direct extension of aid in such areas by a U.S. Government organ. While this particular type of operation may not have been considered by the Cabinet in its discussions of aid policy towards China, it is evident that such a proposal would be inconsistent with the principle of the President's recent decision regarding discontinuance of ECA aid to areas of China that come under Communist control. (see Tab B¹⁵.)

(4) Experience thus far in ECA planning of industrial projects under the China aid program indicates that it would not be possible within three months to plan and conduct engineering surveys for Taiwan industrial projects in addition to those currently planned, so as to enable obligation of \$63 million for such purposes by June 30,

¹² Robert A. Lovett, Under Secretary of State.

¹³ Memorandum of January 14, *supra*.

¹⁴ Roger D. Lapham, Chief of the ECA China Mission.

¹⁵ Memorandum of January 25, p. 616.

1949. Moreover, public justification at this time of the entire \$63 million "contingency fund" by reference to Taiwan would entail serious political disadvantages.

With respect to ECA's general position on the political significance of a "contingency fund", it would appear extremely doubtful, considering the limited time period and purposes for which aid would be authorized, that an increase of \$63 million in U.S. funds available for China under this authorization would make a significant difference in the political implications and psychological effect of the program. If a "contingency fund" were requested and granted and did, in fact, bolster the expectations of non-Communist Chinese regarding the possibility of continuing and increasing U.S. aid, it might well prove to have been a misleading gesture which served merely to delay a clear resolution of the Chinese political situation in the light of which the U.S. could formulate a more realistic policy.

Finally, while it is of course difficult to justify even the continuation beyond April 3 of commodity assistance to non-Communist areas of the Chinese mainland, it would be even more difficult to justify abrupt cessation of aid on April 3 to the Chinese National Government that the U.S. continued to recognize, if that Government maintained control over significant areas of China at that time and provided that its non-Communist political complexion had not been altered. More important, only by obtaining limited authority to continue extension of aid to non-Communist areas of China can the U.S. Government ensure the availability of funds with which to carry forward important projects in Taiwan. The isolated position, limited area and potential economic viability of Taiwan offer some prospect that that island might be able to withstand Communist domination. It is desirable that existing U.S. funds continue to be available to assist the governing authorities of Taiwan in an effort to create stability which would tend to thwart Communist infiltration, and that the U.S. Government be in a position to extend such assistance while avoiding, in so far as possible, public demonstration of a special interest in Taiwan.

Recommendation

The Department should support an ECA request for amendment of the China Aid Act of 1948 to (1) extend its authority until June 30, 1949, and (2) provide the President with discretionary authority as to the recipients in China of aid extended under the Act, but should not support an ECA request for an additional "contingency fund" appropriation. The Department should be prepared to support, if necessary, an ECA request to appropriate Congressional Committees for their concurrence in the diversion, in whole or in major part, of the \$60

million earmarked for industrial reconstruction to procurement of expendable commodities. The Department should advise ECA and maintain, if necessary, in executive session hearings before Congress that a primary consideration in the expenditure of such funds would be the completion of ECA's presently projected industrial replacement and reconstruction program for Taiwan.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/3-2549

*Memorandum on China Aid Program for an Interim Period After
April 2, 1949*¹⁶

[Extract]

In summary, the proposal¹⁷ now presented for consideration is as follows:

1) Extension of the present authorization and appropriation so as to enable the funds from the existing appropriation of \$275,000,000 to be obligated after April 2, when the present authorization and appropriation expires. While the proposed amendments provide for the availability of funds for obligation until December 31, 1949, obligation of funds for program purposes, as distinguished from administrative expenses, probably will be completed before June 30, 1949 if the ECA commodity program is carried forward substantially as at present.

2) A modification in the procedure whereby the Administrator spends China Program funds, making it possible for such funds to be used to assist the Government of China or such other beneficiaries in China as the President may authorize. This would enable aid to be furnished when desirable without the necessity of a formal agreement with a receiving government.

3) Provision for adequate time, funds and administrative authority to supervise distribution and end-use of all supplies authorized under the program, and thereafter, if no further program is required, to conduct an orderly liquidation of the ECA China Mission. An upward revision of \$1,100,000 in the administrative expense ceiling to be available until December 31, 1949 is recommended.

¹⁶ Prepared by the ECA and transmitted to the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations.

¹⁷ For Chinese proposals on aid legislation, see letter of March 31 from the Chinese Ambassador (Koo) to the Secretary of State, p. 671.

893.50 Recovery/3-1549

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] March 15, 1949.

At the request of ECA, I appeared this morning before the House Foreign Affairs Committee in Executive Session and testified on behalf of the proposed interim China aid legislation.¹⁸ Yesterday ECA had run into heavy weather regarding the flexibility provisions which would permit this Government, for example, to assist Formosa should the National Government reach agreement with the Chinese Communists. I did not mention Formosa in my testimony.

Mr. Walter Judd¹⁹ seemed to be leading the group who while favoring the extension of the period beyond April 3, were reluctant to give the Administration power to deal with other than the National Government.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/2-2849

*The Secretary of State to Senator Tom Connally, of Texas*²⁰

WASHINGTON, March 15, 1949.

MY DEAR SENATOR CONNALLY: The following comments on S. 1063²¹ are offered in response to your request as conveyed by Mr. O'Day, Clerk of the Committee on Foreign Relations, in his letter of February 28, 1949.²² It is the Department's view that the Bill proposes aid of a magnitude and character unwarranted by present circumstances in China.

Despite the present aid program authorized by the last Congress, together with the very substantial other aid extended by the United

¹⁸ Mr. Butterworth testified that, should negotiations between the Nationalists and Communists result in a joint government, the latter in practice would be under the domination of Communists. He envisaged the possibility that some areas of China might not acknowledge such a government; in such areas, he would give the United States latitude to render assistance, if in its national interest. For correspondence on Nationalist-Communist negotiations, see vol. VIII, "Political and military situation in China", chapter II.

¹⁹ Congressman from Minnesota.

²⁰ Chairman of the Senate Committee on Foreign Relations.

²¹ This bill, which was introduced by Senator McCarran, of Nevada, authorized the President to allocate \$1,500,000,000 for aid to China for one year, of which up to \$500,000,000 was to be used for monetary stabilization, \$300,000,000 for economic assistance, and \$700,000,000 for military assistance.

²² Not printed.

States to China since V-J Day, aggregating over \$2 billion, the economic and military position of the Chinese Government has deteriorated to the point where the Chinese Communists hold almost all important areas of China from Manchuria to the Yangtze River and have the military capability of expanding their control to the populous areas of the Yangtze Valley and of eventually dominating south China. The National Government does not have the military capability of maintaining a foothold in south China against a determined Communist advance. The Chinese Government forces have lost no battles during the past year because of lack of ammunition and equipment, while the Chinese Communists have captured the major portion of military supplies, exclusive of ammunition, furnished the Chinese Government by the United States since V-J Day. There is no evidence that the furnishing of additional military materiel would alter the pattern of current developments in China. There is, however, ample evidence that the Chinese people are weary of hostilities and that there is an overwhelming desire for peace at any price. To furnish solely military materiel and advice would only prolong hostilities and the suffering of the Chinese people and would arouse in them deep resentment against the United States. Yet, to furnish the military means for bringing about a reversal of the present deterioration and for providing some prospect of successful military resistance would require the use of an unpredictably large American armed force in actual combat, a course of action which would represent direct United States involvement in China's fratricidal warfare and would be contrary to our traditional policy toward China and the interests of this country.

In these circumstances, the extension of as much as \$1.5 billion of credits to the Chinese Government, as proposed by the Bill, would embark this Government on an undertaking the eventual cost of which would be unpredictable but of great magnitude, and the outcome of which would almost surely be catastrophic. The field supervision of United States military aid, the pledging of revenue of major Chinese ports in payment of United States aid, United States administration and collection of Chinese customs in such ports, and United States participation in Chinese tax administration, all of which are called for by the Bill, would without question be deeply resented by the Chinese people as an extreme infringement of China's sovereignty and would arouse distrust in the minds of the Chinese people with respect to the motives of the United States in extending aid. While the use of up to \$500 million in support of the Chinese currency, as proposed in the Bill, would undoubtedly ease temporarily the fiscal problem of the

Chinese Government, stabilization of the Chinese currency cannot be considered feasible so long as the Government's monetary outlays exceed its income by a large margin. After the first \$500 million had been expended, the United States would find it necessary to continue provision of funds to cover the Chinese Government's budgetary deficit if the inflationary spiral were not to be resumed. That China could be expected to repay United States financial, economic and military aid of the magnitude proposed, which the Bill indicates should all be on a credit basis, cannot be supported by realistic estimates of China's future ability to service foreign debts even under conditions of peace and economic stability.

The United States has in the past sought to encourage the Chinese Government to initiate those vital measures necessary to provide a basis for economic improvement and political stability. It has recognized that, in the absence of a Chinese Government capable of initiating such measures and winning popular support, United States aid of great magnitude would be dissipated and United States attempts to guide the operations of the Chinese Government would be ineffective and probably lead to direct involvement in China's fratricidal warfare, General Marshall²³ reflected these considerations when he stated in February 1948²⁴ that an attempt to underwrite the Chinese economy and the Chinese Government's military effort represented a burden on the United States economy and a military responsibility which he could not recommend as a course of action for this Government.

Despite the above observations, it would be undesirable for the United States precipitously to cease aid to areas under the control of the Chinese Government which it continues to recognize. Future developments in China, including the outcome of political negotiations now being undertaken, are uncertain. Consideration is being given, therefore, to a request for Congressional action to extend the authority of the China Aid Act of 1948 to permit commitment of unobligated appropriations for a limited period beyond April 2, 1949, the present expiration date of the Act. If during such a period, the situation in China clarifies itself sufficiently, further recommendations might be made.

Because of the urgency of the matter this letter has not been cleared by the Bureau of the Budget, to which copies are being sent.

Sincerely yours,

DEAN ACHESON

²³ George C. Marshall, Secretary of State, January 1947-January 1949.

²⁴ In executive session testimony, February 20, before the House Committee on Foreign Affairs; see *Foreign Relations*, 1948, vol. VIII, p. 479, and Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 380-384.

Editorial Note

China aid legislation was approved as Section 12 of Public Law 47 on April 19; 63 Stat. 50, 55. It made available to the President through February 15, 1950, an amount equal to the unobligated balance of funds appropriated by Public Law 793 of 1948 "for assistance in areas in China which he may deem to be not under Communist domination".

II. PROBLEMS ENCOUNTERED BY THE UNITED STATES IN FURNISHING AID TO CHINA UNDER THE CHINA AID ACT OF 1948²⁵

893.50 Recovery/1-749

The Director of the Economic Cooperation Administration China Program (Cleveland) to the Chief of the China Mission (Lapham)

[WASHINGTON,] 7 January 1949.

DEAR ROGER: For the past ten days or so I have been occupied with a number of conferences and discussions, which are in effect a reprise of the earlier talks about Toeca 499,²⁶ particularly paragraph 3 (a) thereof. The previous installments on this problem are contained in my letter of December 2 and my letter of December 18, with a short addendum in a letter dated January 6.²⁷

The substance of Toeca 499 has been up at a couple of National Security Council meetings and at least one Cabinet meeting. In these meetings, it has been generally agreed that supplies already in China or in the ports being off-loaded, should be distributed under as effective supervision as can be arranged with the *de facto* authorities that may come into power in particular areas of China. However, at that point the State Department departs from the philosophy in Toeca 499, and is now taking quite firmly the line that the Chinese Communists should be left to stew in their own juice, with no help whatever from the U.S. for the people in the areas controlled by them.

Apparently as a result of this attitude, we have received from the State Department a Memorandum for the Record dated December 30, 1948,²⁸ drafted by Butterworth²⁹ after Mr. Lovett³⁰ had passed on to him the substance of a conversation that he (Mr. Lovett) had had with the President on that day. The text of this memo is as follows:

[Here follows text of memorandum printed in *Foreign Relations*, 1948, volume VIII, page 667.]

²⁵ Continued from *Foreign Relations*, 1948, vol. VIII, pp. 442 ff.

²⁶ November 26, 1948, *ibid.*, p. 654.

²⁷ None found in Department of State files.

²⁸ *Foreign Relations*, 1948, vol. VIII, p. 667.

²⁹ W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

³⁰ Robert A. Lovett, Under Secretary of State.

The sense of the above was communicated to Alec Henderson³¹ and myself while Paul Hoffman³² was still in California; and the text of the memo was sent over by Butterworth on January 3.

At the time this decision was first communicated to us, we took the position that this was so contrary to our understanding of the policy arrangements previously discussed by Mr. Hoffman with both Mr. Lovett and the President, that we did not think action should be taken on it prior to Mr. Hoffman's return to Washington. Butterworth agreed that this was appropriate. He also indicated that he was not at all sure that the general policy should be communicated outside of our immediate office, not even to the Mission. I dissented strongly on that one, on the ground that it was impossible for ECA operations to be conducted sensibly unless the man responsible for ECA's activities in China was informed of what the policy was.

On Monday, the third, we showed the above memo to Mr. Hoffman, who declared that he thought it was a mistaken policy and indicated his intention of raising the matter with the State Department, and possibly the President. He passed on these views very briefly to Mr. Lovett during the next day or so, but until today, Friday the seventh, it was not possible to get a meeting organized to discuss the matter at length.

Today's meeting in Mr. Lovett's office (a couple of hours after the announcement was made of his and General Marshall's³³ resignation, which was not referred to at all during the meeting) was attended by Lovett, Butterworth, Labouisse,³⁴ Hoffman, Bruce,³⁵ and myself. Mr. Hoffman led off by saying that the views he was about to state were held by 95% of the people he talked to in China—that, in fact, he thought that everybody agreed with them with the exception of one member of the American business community and two members of the American Embassy (Clark³⁶ and Merchant³⁷). He then launched into a concise and persuasive statement of the general philosophy in Toeca 499. I won't try to restate that here, but I have tried to restate it at Mr. Hoffman's request in a memo, a copy of which I will send you when it is typed.³⁸

There followed a lengthy discussion (the meeting went on for about an hour and a half) about the merits of the problem. In the course of

³¹ Alexander I. Henderson, General Counsel of the Economic Cooperation Administration (ECA).

³² Administrator of ECA.

³³ Gen. George C. Marshall, Secretary of State since January 1947.

³⁴ Henry R. Labouisse, Coordinator of Foreign Aid and Assistance.

³⁵ Howard Bruce, Deputy ECA Administrator.

³⁶ Lewis Clark, Minister-Counselor of Embassy in China.

³⁷ Livingston T. Merchant, Counselor of Embassy in China.

³⁸ Copy not found in Department of State files.

this discussion, it became clear that Mr. Hoffman and Mr. Lovett disagreed fundamentally on the basic approach to the problem—Mr. Hoffman speaking in favor of continuing to stay in China and try to prevent Russian-domination in China by demonstrating the continued friendship of America for the Chinese people, while Mr. Lovett generally believed such an approach to be unwise, reverting several times to the theme that such a policy was not in accordance with the China Aid Act ³⁹ or what he believed to be the consensus of opinion in Congress. On this latter point, Mr. Hoffman reiterated that he wanted to come to some real agreement within the Government on what was a sound thing to do, and he believed that once such a policy were adopted as being desirable, the problem became one of selling it to Congress, which is not too well informed on the whole problem.

In the course of the meeting, there were a number of exchanges between Messrs. Hoffman and Butterworth. Butterworth generally adopted the line that the Communists were going to be beset with economic troubles as soon as they assumed the responsibility of governing important seacoast areas of China. These areas inevitably look toward the West since they depend for their life on external trade. In his opinion, we should make it just as difficult for the Communists as possible, in order to force orientation toward the West. Mr. Hoffman, agreeing that these areas were forced by the economics of their position to have contact and trade with the West, emphasized that the best way to take advantage of this favorable factor was to conduct economic operations within China to the extent that the Communists will allow it.

Toward the end of the meeting, Mr. Hoffman summarized the disagreement between the two agencies in the following terms: "You want to walk out of China", he said to Mr. Lovett; "but if we are going to be out of China, I want to be thrown out." I haven't yet had an opportunity to talk to Mr. Hoffman and figure out where we go from here. It seems clear that without the support of the State Department, no steps along the lines of paragraph 3(a) of Toeca 499 can really be carried forward; for without a united administration front, such a proposal would get nowhere in Congress. (I am just parroting here something that Hoffman said as we were coming back from the meeting.) But it also seems increasingly clear that much of the good effect of what ECA has done so far, in emphasizing the continuing friendship of the U.S. for the Chinese people, may be lost if the Program is cut off pretty soon as a result of a Communist-dominated coalition taking over.

³⁹ Approved April 3, 1948; 62 Stat. 158.

So, I am forced to end this week's installment with Pauline hanging over the precipice as usual.⁴⁰

Sincerely yours,

HARLAN CLEVELAND

893.50 Recovery/1-1049

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State (Lovett)

[WASHINGTON,] January 10, 1949.

In the light of your conversation with Mr. Hoffman on January 7 regarding the China Aid Program, it is believed that the question of the continuation of the ECA program should be taken up in the Cabinet, with Mr. Hoffman participating, and a decision should be reached which will clarify the matter beyond any possibility of misunderstanding. The urgency of this matter is emphasized by its close relation to the formulation of our trade policy vis-à-vis areas of China which might come under control of the Chinese Communists or a Communist-dominated coalition government,⁴¹ and its bearing upon SCAP⁴² policies.⁴³

It is recommended, therefore, that you submit this problem to the Cabinet at its next meeting with a view to obtaining reaffirmation of the decisions approved by the President, as set forth in my Memorandum for the Record of December 30, 1948 as follows:

[Here follows text of memorandum printed in *Foreign Relations*, 1948, volume VIII, page 667.]

The second sentence of numbered paragraph 1 quoted above means, of course, that aid should cease to those areas that come under the control of a government in which the Communists participate.

ECA has suspended procurement authorization for all industrial replacement and reconstruction projects under its China program. In view of the strategic importance of Taiwan to the United States and its physical separation from the area of conflict, it is recommended that the approval of the Cabinet be obtained for the implementation by ECA of its tentative industrial replacement and reconstruction program for Taiwan (Tab A⁴⁴), unless the island should fall under the control of the Communists or a coalition government with Chinese Communist participation.

W. W[ALTON] B[UTTERWORTH]

⁴⁰ Reference is to "Perils of Pauline", a silent moving picture in serial form, with each installment ending with the heroine in grave danger.

⁴¹ For correspondence on this subject, see vol. VIII, "Political and military situation in China", chapter II.

⁴² Supreme Commander, Allied Powers in Japan.

⁴³ For correspondence on trade between Japan and Communist China, see pp. 973 ff.

⁴⁴ Not printed; it called for \$13,500,000 for specific projects and an additional sum not specifically set forth for coal mine reconstruction.

893.50 Recovery/1-1449

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] January 14, 1949.

MEMORANDUM FOR THE RECORD

Mr. Lovett called on his return at noon from the Cabinet meeting and requested that I record in writing the following:

In accordance with the Department's suggestion, the subject matter of the attached memorandum ⁴⁵ was discussed at a full Cabinet meeting today at which the Vice President-elect ⁴⁶ and Mr. Hoffman were present. Mr. Hoffman advocated his point of view for three-quarters of an hour, using the same arguments he had employed on January 7 in Mr. Lovett's office with Messrs. Labouisse, Butterworth, Cleveland and Bruce also being present. Mr. Lovett mentioned some of the larger implications involved in the problem and read the two pertinent excerpts from Title IV of the ECA Act.⁴⁷ The President polled the whole Cabinet who unanimously voted that the memorandum represented their considered attitude.

The Acting Secretary also left with the President the attached memorandum regarding rehabilitation projects in Formosa ⁴⁸ and gave a copy to Mr. Hoffman.

The Acting Secretary also gave to the President the memorandum regarding the situation in Tsingtao and Formosa, a copy of which is also attached.⁴⁹

W. W. BUTTERWORTH

[Annex]

Memorandum Presented to Cabinet Meeting

[WASHINGTON,] January 14, 1949.

Following discussion of the China aid program in the National Security Council and further discussion in two meetings of the Cabinet, the President in an interview, at which Mr. Clark Clifford ⁵⁰ was present, communicated to the Acting Secretary of State by way of confirmation the following decisions:

⁴⁵ *Infra.*

⁴⁶ Alben W. Barkley.

⁴⁷ The Foreign Assistance Act of 1948, approved April 3, 1948; 62 Stat. 137. The China Aid Act of 1948 constituted Title IV.

⁴⁸ For the President, January 14, p. 267.

⁴⁹ For the President, January 14, p. 265.

⁵⁰ Special Counsel to President Truman.

1. That this Government would continue to support through the implementation of the China Aid Act the present Chinese Government or a legal successor Government which pursues an anti-Communist policy. However, should a government come into power which comes to terms with the Chinese Communists, all aid should cease irrespective of whether the Communists are in numerical ascendancy or not.

2. When the Chinese Communists either directly or indirectly through a coalition government take control over any area, all ECA supplies ashore or in the process of being unloaded can be distributed under conditions similar to those now prevailing. However, ECA supplies which have not yet reached such ports should be diverted elsewhere.

3. That the military supplies under the China Aid Act should be delivered insofar as possible in accordance with the advice of our military authorities in China.

The second sentence of numbered paragraph 1 quoted above means, of course, that aid should cease to those areas that come under the control of a government in which the Communists participate.

893.50 Recovery/1-1449: Telegram

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

WASHINGTON, January 14, 1949—8 p. m.

55. Eyes only Ambassador, Clark, Merchant, Jones.⁵¹ Fol policy decisions unanimously confirmed at Cabinet meeting today which Mr. Hoffman also attended.

[Here follow policy decisions quoted verbatim *supra*.]

Sense of Cabinet meeting that 2 above may be interpreted to permit transfer to and distribution in Peiping and Tientsin of flour stocks in Tsingtao originally destined for Peiping and Tientsin, this transfer to be made when physically possible and only at request of ChiGovt at highest level. Further flour shipments have been suspended.

Pls convey sense of above eyes only Clubb,⁵² Smyth,⁵³ Strong⁵⁴ and Ludden⁵⁵ and enjoin them utmost care to avoid any disclosure. Similar injunction contained in ECA telegram eyes only Lapham.

LOVETT

⁵¹ J. Wesley Jones, Counselor of Embassy in China.

⁵² O. Edmund Clubb, Consul General at Peiping.

⁵³ Robert L. Smyth, Consul General at Tientsin.

⁵⁴ Robert C. Strong, Consul at Tsingtao.

⁵⁵ Raymond P. Ludden, Consul General at Canton.

893.50 Recovery/1-2949

Memorandum Prepared in the Office of Far Eastern Affairs

[WASHINGTON,] January 25, 1949.

CHINA: EFFECT OF FURTHER COMMUNIST EXPANSION ON THE ECA
CHINA PROGRAM*Problem:*

To determine what policy should govern ECA operations in those areas of China that come under control of the Chinese Communists or of a Communist-dominated coalition government.

Background:

During November, 1948, as the Communists' military advances made their control of cities receiving ECA aid appear imminent, Mr. Lapham, chief of the ECA China Mission, recommended to Mr. Hoffman that ECA continue its commodity assistance to such cities in the event of Communists' control, provided present procedures governing distribution and publicity could be maintained. Shortly before his departure for China in December, Mr. Hoffman discussed the question inconclusively with the Acting Secretary and the President. The Acting Secretary expressed serious doubt that Mr. Lapham's recommendation was appropriate or feasible. While in Shanghai, Mr. Hoffman made statements to the press which were widely interpreted as meaning that he favored continuation of U.S. aid to a Communist coalition government if that government permitted essential freedoms. After Mr. Hoffman's return to Washington, he sought approval by the Acting Secretary and the President of Mr. Lapham's proposal. The Acting Secretary, however, recommended that aid should be discontinued to areas that come under Communist control.

Action Taken:

On December 30, 1948, the President, in consultation with the Acting Secretary, made the following decision as set forth in Mr. Butterworth's memorandum of that date to the Acting Secretary:

[Here follows Mr. Butterworth's memorandum printed in *Foreign Relations*, 1948, volume VIII, page 667.]

The second sentence of numbered paragraph 1 quoted above means, of course, that aid should cease to those areas that come under the control of a government in which the Communists participate.

This decision was communicated to Mr. Hoffman. However, subsequent conversations between Mr. Hoffman and the Acting Secretary indicated that some misunderstanding or disagreement remained. Therefore, on January 10, 1949, it was recommended to the Acting

Secretary that the President's decision be discussed by the Cabinet, with Mr. Hoffman present, to obtain its reaffirmation and clarification. This was done. At Mr. Hoffman's request, however, it was agreed that stocks at Tsingtao of wheat and wheat flour which had been diverted from Tientsin and Peiping could be distributed in the latter cities when transportation became possible, provided that it was done by the request of the National Government at the highest level.

In accordance with the President's decision, Mr. Lovett approved a recommendation "that ECA be requested immediately to regulate its commodity shipments to central China so as to ensure that stocks are not accumulated beyond the levels required for distribution during an estimated period of transition from Nationalist to Communist control".

893.50 Recovery/1-2649 : Telegram

*The Deputy Economic Cooperation Administrator (Bruce) to the
Consul General at Shanghai (Cabot)*

WASHINGTON, January 26, 1949—7 p. m.

Ecato 944. [To] Lapham from Hoffman re Toeca 858.⁵⁶

1. Policy outlined Ecato 885⁵⁷ clearly precludes US aid in any form to areas coming under Communist control. This necessarily implies reduction in scope and duration of JCRR⁵⁸ program, both because collaboration with Communists or their associates barred and because termination of commodity program will eliminate or drastically reduce local currency resources available for Commission. Commission should therefore concentrate on projects which can be completed before anticipated Communist takeover or can be continued in areas likely remain under anti-Communist control.

2. In view adverse effect immediate abandonment, such projects as Tung Ting dykes for which firm commitment already made may be continued so long area involved not under Communist control. No new projects this nature should be started in vulnerable areas, which for present probably means all mainland. For info Amer members only,⁵⁹ State Dept recommends urgent consideration possibility operation intensified JCRR program on Taiwan.

3. JCRR as presently constituted could probably not function anyway in connection with new regime since latter not likely recognize

⁵⁶ Copy of ECA telegram not found in Department of State files.

⁵⁷ January 14, not printed; it advised Mr. Lapham of policy decisions reached at the Cabinet meeting of January 14, along the lines of telegram No. 55, January 14, 8 p. m., to the Ambassador in China, p. 615 (893.50 Recovery/1-1449).

⁵⁸ Joint Commission on Rural Reconstruction.

⁵⁹ John Earl Baker and Raymond T. Moyer.

present Chinese commissioners or permit or provide local currency financing for continuance activities so closely associated US Govt and Kmt.⁶⁰ However where provincial rural reconstruction foundations have been established before takeover, they will presumably continue to function and collect payments on JCRR loans as long as Chinese authorities permit, although direct participation by JCRR itself is excluded, and JCRR must cut off its direct contact with or control over such foundations.

4. We concur desirability assisting Mass Education and similar programs to extent feasible under present circumstances. However, Yen⁶¹ and other sponsors such projects should understand Commission help cannot be assured after areas involved come under Communist control. In discussing this matter with Chinese you should not reveal terms policy decision of Ecato 885. Difficulties summarized para 3 above should serve as sufficient reason.

5. In light these considerations we question whether Shreve program could be effectively initiated and developed on contemplated scale prior necessary withdrawal JCRR from most mainland areas. Please advise your views soonest.

6. Continuance conservancy, public works projects financed with local currency can be judged generally by same criteria as rural reconstruction. However, whole local currency problem raises special problems which covered separate cable. [Hoffman.]

BRUCE

893.50 Recovery/1-2749 : Telegram

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

NANKING, January 27, 1949—9 a. m.

[Received January 27—3:42 a. m.]

234. For your information only (reDeptel 55 of January 14), I accompanied Roger Lapham on brief call January 18 on Generalissimo.⁶² Lapham inquired whether Generalissimo desired on-shipment to Tientsin and after surrender to Peiping of ECA flour originally destined those [cities] and diverted Tsingtao and Shanghai by reason military developments. Generalissimo's immediate and decisive reply was no.

STUART

⁶⁰ Kuomintang (Nationalist Party).

⁶¹ Y. C. James Yen, head of the Chinese Mass Education Movement and Chinese member of the JCRR.

⁶² President Chiang Kai-shek, who retired on January 21 in favor of Vice President Li Tsung-jen as Acting President.

893.50 Recovery/2-249: Telegram

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

SHANGHAI, February 2, 1949—5 p. m.

[Received 10:14 p. m.]

346. For Butterworth. Consulate General suggests ECA and Department may wish reexamine Ecato 944⁶³ in light Canton's 15, January 25, JCRR M-9,⁶⁴ from Baker, Moyer and Dawson⁶⁵ for ECA which apparently crossed ref tel. Dawson urges Department and ECA give earnest consideration weight reasons continuance certain limited JCRR activities even in Communist-dominated areas contingent on agreement to specified conditions, on assumption that high level policy decision did not specifically cover such activities. Believe we should be particularly reluctant curtail irrigation project and three-prefecture projects in Szechwan and Tung Ting dike repair in Hunan. Other obviously meritorious projects in South China deserving high priority in view of commission, if funds available, include drainage projects Kwangtung, Chekiang extension program; Fukien-Lungyen integrated program (land reform project), seed multiplication and distribution and animal disease control in South China provinces and other miscellaneous projects of great value originating through local initiative totalling only some US \$90,000.

On basis Dawson's recent review entire program with commission, Canton, foregoing projects totalling some US \$4,000,000 are considered highest priority.

If local funds not available as implied Ecato 944, use appropriate ECA funds would appear justifiable.

Re paragraph 4 Canton's 15, Dawson strongly supports opinion Baker and Moyer that decision now withdraw from such project as foregoing would have unfortunate consequences, enabling Communists make propaganda capital from our refusal to continue, while at same time they would have advantage utilizing our plans which would then be in their possession. We could obtain entering wedge Communists' areas through such projects. If we withdraw, our present favorable position could be regained only with greatest difficulty if at all.

Rural reconstruction program appears most worthwhile experimental program designed ascertain if we can hold our position Communist territory. Since Communists give preferred status to rural reforms, above JCRR projects might well prove acceptable to them.

⁶³ January 26, p. 617.

⁶⁴ Not printed.

⁶⁵ Owen L. Dawson, Agricultural Attaché of the Embassy in China.

It should be effective means of holding our longstanding friends in China and keeping nominal Communists now on fence out of Moscow camp. Carrying out agreed measures with appropriate safeguards would hold out promise benefits which would be more than proportionate to risks entailed.

Recommend thoroughgoing consideration be given approval modified program along lines indicated.

Dawson has good reason believe Chiang Mon-lin and Dr. Shen of JCRR would not be *persona non grata* to Communists since former well acquainted with Mao Tse-tung⁶⁶ and other Communist leaders and Dr. Shen favorably known among certain Communist technical agricultural elements. They should have some prospects securing Communist acceptance modified program outlined.

There are grounds for believing extreme pro-Soviet elements of Communist Party would be highly disconcerted if our Government accepted sound program agreeable to coalition or non-Soviet dominated regime.

Sent Department, repeated Canton 4, pouched Nanking 262.

CABOT

893.50 Recovery/2-249: Telegram

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

PEIPING, February 2, 1949—6 p. m.

[Received February 2—12:36 p. m.]

167. Reference ECA telegram 430, February 1 from Lapham⁶⁷ to Davis⁶⁸ Peiping. Davis is proposing to Lapham residual stocks approximately 300 tons flour milled in China be distributed locally to charitable organs, DP⁶⁹ camps, etc., with amount undistributed [at] time closure office be delivered Consulate General.

ECA Peiping will probably have enough time windup local operations as highly improbable [that] aircraft be permitted land Peiping in next few days. (Original ECA schedule called for windup by February 4.) Davis states legal title flour still with ECA virtue confidential agreement between CUSA⁷⁰ and ECA at Shanghai approximately January 10. There being no indications in either Lapham's refel or standing Department instructions regarding particular disposition

⁶⁶ Chairman of the Central Committee of the Chinese Communist Party.

⁶⁷ Not printed; it directed liquidation of the ECA Peiping office and turning over to the Consulate General there of residual stocks of wheat and flour.

⁶⁸ Ritchie G. Davis, Special North China Representative of the Chief, ECA China Mission.

⁶⁹ Displaced persons.

⁷⁰ Chinese Council for United States Aid.

which this office would be expected make of any residual stocks, request instructions earliest.

My recommendation would be ECA make immediate distribution all stocks through existing municipal organizations which still controlled by original personnel (takeover estimated require approximately one month) and get full credit for operation as well as having wound up affairs properly leaving no encumbrance in Communist hands.

CLUBB

125.8576/2-349 : Telegram

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

SHANGHAI, February 3, 1949—5 p. m.

[Received February 3—12:09 p. m.]

371. Urgently request policy statement and clarification ConGen responsibilities liquidation ECA Mission Shanghai. Mission planning move Canton target date February 15, leaving small regional office which also to be transferred when changeover occurs. ConGen asked accept custody large volume ECA administration property presently scattered throughout Shanghai; also large quantities program supplies. Alternative virtual abandonment account time limitation. Administration property comprises large fleet motor equipment, office equipment and supplies, household equipment et cetera, some belonging ECA, other inherited CRM-UNRRA,⁷¹ title uncertain and would require in addition vehicle parking space approximately one floor Moutrie godown for storage. Such space available only if rental godown No. 5 authorized per ConGentel 254, January 26, denied Deptel 171, February 1.⁷²

Saddling ConGen with responsibility for ECA program supplies might easily compromise its position vis-à-vis Communist regime and reduce effectiveness of representation. Furthermore responsibilities of this nature rather far removed from normal Consular functions.

If ConGen responsible administration property and liquidation program operations, considerably larger American staff required than otherwise necessary.

Request telegraphic instruction soonest.

CABOT

⁷¹ United States China Relief Mission and the United Nations Relief and Rehabilitation Administration. The CRM administered relief assistance under the agreement with China of October 27, 1947. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1947, vol. VII, pp. 1293 ff.

⁷² Neither printed.

893.50 Recovery/2-549 : Telegram

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

NANKING, February 5, 1949—3 p. m.
 [Received February 5—4:05 a. m.]

321. Re Toeca 935, February 2 [1] from Lapham,⁷³ and Peiping's 167 to Department, February 2. Lapham has requested Ambassador, in writing instruction concerned, [that] Consulate Generals be "prepared take over (ECA) stocks, merchandise, other assets, to employ them appropriately according their best judgment and policies determined by Department". Request includes Tsingtao where may be large tonnage wheat and flour even allowing for maintenance ration through March. Same issue may subsequently arise Shanghai.

In light reported confiscations ECA foodstuffs by Communist military Tientsin, surplus stocks Tsingtao could be shipped out prior Communist take-over there at same time alleviating responsibilities and possible embarrassment Tsingtao Consulate General re protection, disposition.

Embassy reluctant instruct Consulate Generals without prior acquiescence Department. Please instruct soonest.

STUART

893.50 Recovery/2-249 : Telegram

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

WASHINGTON, February 5, 1949—5 p. m.

66. Rptd Shanghai 204, Nanking 181. ECA agrees recommendation final para Contel 167 Feb 2 subject Lapham's approval. Dept concurs.

ACHESON

893.50 Recovery/2-549 : Telegram

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

WASHINGTON, February 5, 1949—6 p. m.

182. Ref Nanking's 321 Feb 5, 3 p. m. and Shanghai's 371 Feb 3 Dept confirms Embassy's position not to instruct Consulate Generals without prior approval Dept.

Dept will discuss questions with ECA and instruct as soon as possible.

⁷³ ECA telegram not printed; it reported Mr. Lapham's orders to his North China representatives to evacuate and to "turn stocks, properties and local currency over to Consuls General on departure". (893.50 Recovery/2-149)

For your info Dept is of opinion that it should not agree to Consulate Generals Shanghai and Tsingtao undertaking those responsibilities of ECA which that organization is in position to arrange to do for itself and for which it was created by act of Congress.⁷⁴

ACHESON

893.50 Recovery/2-249 : Telegram

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

WASHINGTON, February 10, 1949—5 p. m.

242. Proposals made ConGentel 346, February 2 pouched Nanking 262 believed covered in principle by decision Deptel 55, January 14 to Nanking rptd Shanghai 61. Instructions Ecato 944 January 26 provide as much leeway as possible JCRR program in light this decision.

However, ECA studying feasibility use appropriated funds finance if necessary such aspects JCRR program as can be continued. Also considering possibility turn over voluntary agencies cooperating JCRR residual ECA commodity stocks and such surplus admin property as would be useful their programs.

ACHESON

893.50 Recovery/2-1249 : Telegram

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

WASHINGTON, February 12, 1949—5 p. m.

269.⁷⁵ For Ambassador and Lapham from Dept and ECA. Following policy is agreed between ECA and State Dept.

1. Program Supplies: ECA offices should take care of distribution at least to primary distributors (such as municipal organs or voluntary agencies) prior to evacuation. In Lapham's discretion such primary distribution may be accelerated to permit earlier evacuation ECA personnel. ConGen's should not take over program supplies. In accordance Ecato 879,⁷⁶ limited quantities can be given to ConGen by ECA for use own staffs and American community.

2. Administrative Property: Prior to distributing ECA program stocks and evacuation, ECA office should do utmost to make appropriate disposition arrangements for ECA administrative property (including shipment surplus items to Korea) in accordance with Ecato 901⁷⁷ as modified by procedural cable to follow. However, ECA per-

⁷⁴ The Economic Cooperation Act of 1948, approved April 3, 1948; 62 Stat. 137.

⁷⁵ Sent also by the ECA as Ecato 1030.

⁷⁶ January 11, not printed.

⁷⁷ Copy not found in Department of State files.

sonnel should not remain at regional post merely for purpose dispose administrative surplus property. Therefore when ECA evacuates each city, remaining administrative property may be turned over to ConGen under procedural instructions to follow.⁷⁸

ACHESON

893.00/2-1549

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] February 15, 1949.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
The Secretary of State—Mr. Acheson
Mr. W. W. Butterworth, Director for Far Eastern
Affairs

[For the first part of this memorandum, see volume VIII, "Political and military situation in China", chapter II.]

Secondly, he⁷⁹ raised the question of the recent ECA announcement regarding cotton shipments to Shanghai, emphasizing the importance which the employment in cotton mills and the ensuing cotton cloth played in the life of Shanghai. Mr. Butterworth pointed out that the ECA announcement indicated that shipments were merely "suspended for the time being"; that this action was due to the stock position at Shanghai. The Ambassador was advised that in view of the vulnerability of Shanghai, ECA had deemed it inadvisable to keep large stocks on hand in that city and that future deliveries would go forward in such a way as not to hinder reasonable operation of the mills but at the same time, to avoid the maintenance of large stocks at Shanghai. The Ambassador appeared to be quite satisfied with this explanation.

[Here follows section on U.S. policy in Japan.]

D[EAN] A[CHESON]

893.50 Recovery/2-1749: Telegram

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

PEIPING, February 17, 1949—4 a. [p.] m.

[Received 6:25 a. m.]

250. Retel 246, February 17.⁸⁰ Davis, ECA, just informed me that upon his return from lunch today he found on premises 19 Commu-

⁷⁸ None found in Department of State files.

⁷⁹ The Chinese Ambassador.

⁸⁰ Not printed; it reported that Communists in Peiping had refused to countersign a receipt containing ECA conditions under which ECA stocks in that city would be turned over.

nists including 11 armed men who according CUSA representative Lee had announced they were going to remove ECA flour in question. Davis asked Lee inform Communists he would not endeavor prevent removal but would regard it as seizure. Lee agreed action was to be regarded as such in circumstances. At time Davis informed truck was process loading.

In circumstances, my comments contemplated Consular reference telegram in support my position cited that telegram would be largely superfluous. Express belief, however, that delivery flour without at least (1)—written statement from Communists re projected use (that [is,?] nonmilitary) to which flour would be put, (2)—written Communist receipt covering those supplies would have been contrary basic principles ECA (which views flour as American property) and would moreover have established dangerous precedent of handing over American Government property without formal communication or receipt which would have made more difficult position both ECA director Ivy ⁸¹ Tientsin, and position other government agencies both Peiping, Tientsin. Position, I believe, should be that American property will not be surrendered to Communists against their naked unsupported demand. I would, therefore, fully support Davis action re matter in point.

Davis preparing protest.

Sent Department 250, Shanghai 214, Nanking 201.

CLUBB

893.50 Recovery/2-2549: Telegram

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

PEIPING, February 25, 1949—11 a. m.
[Received February 24—11:47 p. m.]

297. ReContels 250, February 17 and 278, February 23 [21].⁸² Suggest consideration Department if US Government claims title ECA flour stocks Tsingtao (which in large part originally destined Peiping, Tientsin) it might be effective political move remove those stocks elsewhere where urgently needed in view probability Tsingtao will be taken before long by Communists.

Department may then find desirable in conjunction ECA make brief public statement to general effect action taken because of arbitrary Communist action regarding ECA stocks Tientsin, Peiping when Communists refused meet directly with or give written communication or

⁸¹ James T. Ivy, Regional Director of ECA China Mission.

⁸² Latter not printed.

receipt to ECA representatives,⁸³ and as repeated Communist assertions indicating disapproval ECA program whole and part.

Matter discussed Davis, who approves, asks this telegram shown ECA Washington, Shanghai. Davis said particularly this move might at least be given effect regarding Tsingtao stocks originally destined Tientsin, Peiping.

Sent Department, repeated Nanking, Shanghai.

CLUBB

893.50 Recovery/3-1749

Memorandum by the Chief of the ECA China Mission (Lapham) to the ECA Administrator (Hoffman)

[WASHINGTON,] 9 March 1949.

You have asked my recommendations as to what the United States, and more specifically ECA, might do with respect to:

- (A) Those areas in China occupied by the Communists;
- (B) Those areas in China not occupied by the Communists;
- (C) The Island of Formosa (Taiwan).

Before advancing any specific recommendations, I make these general comments:

Our primary objective must be to prevent the domination of China by any government actively or potentially hostile to the U.S.—in short to maintain “the Open Door”. It is particularly important to block a satellite relationship between China and the U.S.S.R.

We must check the deterioration of the traditional friendship of China and the U.S. and strengthen it. We should formulate and carry out the most effective program to minimize the adverse effect of recent Communist successes. We should maximize our Chinese contacts through educational, religious and commercial channels.

The over-all objective is self-evident, but the real problem is how to apply the specific measures best calculated to advance that objective. This is particularly difficult today because of the rapid changes currently taking place throughout China.

We must assume the worst—that the Communists can in the near future extend their military control south of the Yangtze and eventually to the southwest, the west, and northwest. Increasingly it becomes apparent that the great mass of the Chinese people desire peace at any cost and that the Nationalist will to resist on the military front is practically nil.

⁸³ In telegram No. 324, February 28, 5 p. m., the Consul General at Peiping reported Mr. Ivy had met with subordinate Communist officials but had not been received by officials of the Communist Military Affairs Control Commission which had taken over ECA flour (893.50 Recovery/2-2849).

Probably nothing can prevent Communist control of all or nearly all of the China mainland except direct, powerful and costly military intervention by the U.S. I am opposed to any such intervention even on a minor scale. It is in our interests and in the interests of the Chinese themselves that today the U.S. furnishes no further military assistance either directly or indirectly.

(A) *Those areas in China occupied by the Communists:* Inasmuch as ECA has been told to discontinue operating in these areas, how best then can the U.S. through other channels maintain as much contact as possible in Communist controlled China? How best can we prevent the lowering of the Iron Curtain and keep American contact with the peoples of those areas and through what channels?

Unfortunately the means of keeping our foot in the door in Communist China are limited indeed. To the extent that the Communists will allow, we should encourage American philanthropic and cultural activities by American private citizens financed by private funds. We want our missionaries, our teachers and our doctors to continue helping the Chinese people irrespective of political affiliations.

Our best bet to keep our foot in the door would appear to be through commercial channels. The Communists will need gateways through which to export and import. While there will be pressure to rigidly license and control U.S. exports to Communist areas, I believe we should interpose no limitations or restrictions upon our export trade to China other than supplies of military goods and definitely strategic materials. If American private interests, knowing the risks involved, are willing to trade in Communist areas they should be encouraged to do so with a minimum of U.S. restrictions.

(B) *Those areas in China not occupied by the Communists:* Let us take a look at those mainland areas in China in which ECA operates today:

Tsingtao is completely cut off from Nationalist China except by sea. This city of 1,300,000 population can probably be taken by the Communists overnight whenever they choose to do so. The American Navy there has gone afloat and will probably stand by only as long as ECA continues its food rationing program as well as its small scale cotton operations in that city. Presently ECA has sufficient food stocks to carry its rationing program through to June. My recommendation is that ECA should withdraw completely from *Tsingtao* when our present commodity stocks are exhausted.

Nanking probably will fall under Communist control whenever they choose to take it. My recommendation is we continue our aid program there only on a very minor scale.

Shanghai is by far ECA's most important operating area, and if the Communists want to push forward on the military front it is

quite possible they could take over Shanghai within a matter of a few weeks.

Canton—Most people seem to think this city will be free of Communist control long after Shanghai falls, but if the Communists really choose to push forward along the Canton-Hankow Railway it might possibly fall before Shanghai.

With respect to these two cities, I advocate no slackening off of commodity distribution—food, cotton and petroleum. If ECA is fearful of criticism of having too much commodity stockpiles in Shanghai or Canton, then ECA must guess and re-guess the dates these cities will fall. My recommendation is we give up trying to speculate and proceed on the basis that we will continue to operate in Shanghai and Canton in the usual way, using our best judgment from day to day.

From the over-all standpoint it is essential that both Shanghai and Canton be kept well stocked with food,—that we continue supplying about the same amount of raw cotton that we have been,—and that we continue furnishing petroleum products at about our past level. In short, my feeling is we should furnish aid to the people of these two cities right up to the time they are lost to the Communists.

Swatow is relatively not so important, but our food rationing program there should be continued as heretofore.

A good argument for continuance of present ECA operations in Shanghai and Canton is that it furnishes some bargaining strength for what remains of the Nationalist Government and may tend to defer Communist occupation of Shanghai and Canton.

In all non-Communist areas my recommendation is that we encourage the activities of the Joint Commission on Rural Reconstruction, especially in those areas most likely to remain free of Communist control. Encourage that Commission to emphasize land reform and to create, and as far as practicable endow, Chinese or Sino-American foundations which may be able to carry on even if such areas, either fully or nominally, are placed under Communist control. In brief, make hay while the sun shines.

Future consideration might be given to the possibility of revamping the JCRR, perhaps making it wholly an American commission or perhaps having the work of that commission directly taken over by ECA.

Also, in these areas provide economic and financial advice when requested to the extent that competent staff is available.

Further expedite tin procurement and development of tin production in Yunnan and Kwangsi along lines already recommended by our Mission,—i.e., complete tin purchase contract on behalf of RFC

and fully carry out necessary engineering to improve the Yunnan tin mining industry.

I do not recommend going ahead on the China mainland with ECA's Reconstruction and Replacement Program except possibly the airlines aid project and one or two other small projects.

(C) *The Island of Formosa (Taiwan)*: I have recommended no capital expenditures for reconstruction and replacement on Taiwan unless the U.S. is fully prepared to go the limit in protecting such expenditures. However, if our policy does not contemplate other than political and economic assistance, I stand ready to proceed with the capital expenditures already recommended by the Mission, *as long as everyone understands the calculated risk*. To the extent possible we should see that Taiwan is governed for the benefit of the Taiwanese people and not for the favored few from the mainland. We should use our influence to prevent further exploitation of the island by the mainland people—the number of Nationalist refugees now pouring into that island should be restricted. And above all we should prevent the island becoming a Chinese military base to operate against the Communists on the mainland. And JCR activities should go forward there.

No matter what we do our actions will be viewed with suspicion and the Chinese Communists will charge us with developing the island to further our own interests. But as actions speak louder than words, we can only hope that in due course our efforts to prevent further exploitation by the mainlanders will be recognized and appreciated not only by the native Taiwanese but other Asiatic peoples.

Summing up: The prospects of advancing American influence in China today are not rosy. One thing stands out: Our influence there today is far less than it was on V-J Day. I am not competent to analyze the reasons for the decline of our influence or to place responsibility for that decline. I simply state the fact and express the thought that when old methods have failed you lose nothing by trying new ones.

We are involved in a Chinese civil war and we have been actively supporting the losing side—not only with economic aid but with arms and ammunition. Let us abandon the thought of any further military aid at this time, either to what remains of the Nationalist Government or any anti-Communist group which may arise.

Our economic aid has been largely spent to help a limited number of people residing in the larger urban areas. It is well known that for years the great numbers of peasants and farmers, the backbone of China, have been exploited by the favored few and for the benefit of the larger cities. Let us concentrate hereafter on helping the real people of China—the great mass that live in the rural areas. Let us emphasize this by action—by American personnel working in the rural

areas with no motive other than to improve the standard of living in those areas. Let us lead as many Chinese as we can along the lines proposed by the JCR—land conservancy, improved agricultural methods, medical and sanitary instruction, schools for children and adults, mass education. Let us by our actions develop counterpropaganda to offset distorted Communist propaganda. Let us show that we Americans are intelligent and flexible enough to meet conditions as they are and not as we want them to be. What have we got to lose by stressing this approach.

893.50 Recovery/3-1749

*Memorandum of Conversation, by the Director of the ECA China Program (Cleveland)*⁸⁴

[WASHINGTON,] March 10, 1949.

A meeting on the future plans for the program of economic aid to China, administered by the Economic Cooperation Administration, was held in the Office of the Secretary of State on March 10. Present and participating were Secretary Dean Acheson, Administrator Paul Hoffman, Roger Lapham, Walton Butterworth, and Harlan Cleveland. A memorandum from Mr. Lapham to Mr. Hoffman dated March 9, 1949, on "Recommendations re China Policy", was read through and then reviewed point by point. Following is a summary of the decisions reached, in which both the Secretary and the Administrator concurred:

1. The statement in Mr. Lapham's memorandum regarding policy toward areas in China occupied by the Communists was, in general, in line with the policy decision just reached by the National Security Council.⁸⁵

2. Mr. Hoffman suggested that ways and means should be found to assist the voluntary agencies operating in China to continue their work, if it is possible to do so. The Secretary took this matter under advisement.

3. With regard to those areas in China not occupied by the Communists, the China Aid Program is to be administered with "orderly liquidation" as its objective. It is contemplated that if the situation in China continues to develop along the lines now indicated, no request for an economic aid appropriation will be made of Congress

⁸⁴ Copy transmitted to Mr. Butterworth by Mr. Cleveland in his letter of March 17, not printed. In a letter to Mr. Cleveland of March 19, Mr. Butterworth agreed that this memorandum adequately recorded decisions reached at the March 10 meeting.

⁸⁵ NSC 34/2, February 28, p. 491, was approved March 3, see memorandum, p. 499.

beyond the present request for an extension of the time in which the \$275,000,000 appropriation can be used.

4. With respect to the commodity program on the Chinese mainland, the concept of orderly liquidation means the following:

(a) ECA should taper off its program in Tsingtao and withdraw when present commodity stocks are exhausted.

(b) In the other cities (Nanking, Shanghai, Canton, and Swatow), the commodity program should be gradually tapered off, preserving funds sufficient to conduct an economic operation on the Island of Formosa if that proves to be desirable, and sufficient funds for continuation of rural reconstruction activities. The objective in the case of the food program, should be to carry the rationing systems through to the harvest. ECA should not furnish a monthly amount of cotton in excess of the normal share of cotton consumption which it has furnished heretofore, and should taper off this program in whatever manner seems most feasible from an operating standpoint, having also in mind the desirability of keeping stocks to a minimum. (In this connection, Mr. Hoffman made clear that if the Communists take Shanghai at any time within the next two or three months, ECA will be caught with a considerable volume of raw cotton, yarn, and textile stocks.)

5. The Rural Reconstruction Program should be continued and supported in accessible areas of the Chinese mainland. This program should continue at least during the life of the ECA Mission in China, and if possible thereafter, by endowment or other arrangements for carrying it on without direct ECA participation. It was agreed that every effort should be made to meet the problem created by the difficulty of securing local currency support for the Rural Reconstruction Commission, if necessary by securing sufficient Congressional authority to use ECA dollars to finance expenditures within China for the Rural Reconstruction Program. (Mr. Lapham indicated that it might be necessary to revamp the Joint Commission on Rural Reconstruction, perhaps making it wholly an American program.)

6. No capital equipment programs are to be authorized for the Chinese mainland. In Yunnan, efforts should be made to get the tin out while the area is still accessible, but no capital development program should be carried on. This decision also rules out the proposed project for assistance to Chinese airlines.

7. Plans will be laid for a program of economic support to Formosa, including proposed capital expenditures for industrial replacement and reconstruction, which should be brought as near to the point of consummation as feasible without additional allocation of funds. The fertilizer distribution program now planned, together with some rural reconstruction activities, will be carried forward. No capital expendi-

tures will be authorized unless and until the political circumstances are judged to be propitious for an all out economic program on the Island. However, it is not considered that the time has yet come to institute such a program.

893.50 Recovery/3-1549 : Telegram

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

WASHINGTON, March 15, 1949—7 p. m.

344. Article 5 para 7 ECA Bilateral Agreement⁸⁶ requires that unencumbered balance remaining in Special Account on April 3, 1949, be disposed of as agreed between governments of U.S. and of China, it being understood that agreement of the United States is subject to approval by Act or Joint Resolution of Congress.

Believe it unnecessary raise this question in Congress at present time. No reference to the Special Account is being made in material about to be presented to Congress dealing with extension of ECA program in China.⁸⁷

Accordingly, request you negotiate amendment to Bilateral through exchange notes postponing date of final agreement this matter from April 3 until Dec. 31, 1949.

ACHESON

893.50 Recovery/3-2249 : Telegram

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

CANTON, March 22, 1949—7 p. m.
[Received March 23—1:57 a. m.]

Cantel 160. For ECA for Griffin.⁸⁸ Your ECANan 487,⁸⁹ reDeptel 344 [to] Nanking, repeated Shanghai 485, Canton 49. Foreign Office agreeable negotiate amendment ECA bilateral agreement postponing special account date from April 3 to December 31, 1949. Am tentatively suggesting following note to Foreign Office. May I have your comments?

“Your Excellency: Under instructions of my Government I have the honor to invite Your Excellency’s attention to Article V, paragraph 7, of the bilateral agreement covering economic aid to China

⁸⁶ Signed at Nanking, July 3, 1948, Department of State, Treaties and Other International Acts Series No. 1837; or 62 Stat. (pt. 3) 2945. For correspondence on negotiation of agreement, see *Foreign Relations*, 1948, vol. VIII, pp. 506 ff.

⁸⁷ For correspondence on this subject, see pp. 599 ff.

⁸⁸ Robert A. Griffin, Deputy Chief of the ECA China Mission.

⁸⁹ Copy of ECA telegram not found in Department of State files.

which requires that the unencumbered balance remaining in the special account on April 3, 1949, be disposed of as agreed between the Governments of the United States and China.

In view of existing situation, my Government proposes that the date mentioned in Article V, paragraph 7, be changed from April 3 to December 31, 1949.

If the Chinese Government is agreeable to this proposal, this note and your reply indication such approval will be deemed to constitute amendment to the bilateral agreement."

Sent Shanghai 101, repeated Nanking 140, Department.

CLARK

893.50 Recovery/3-2349 : Telegram

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

NANKING, March 23, 1949—8 p. m.
[Received March 24—12: 41 a. m.]

638. For Hoffman and Lapham, ECA, from Griffin. I have discussed contents Ecato 1169 and Ecato 1173⁹⁰ with Ambassador, Merchant, Jones and Parker⁹¹ who concur in following:

We are operating on basic assumption that it is in our vital interest to support Li Tsung-jen within our available means in forthcoming peace negotiations with Communists⁹² to permit Li to resist with some degree effectiveness overwhelming Communist demands which may be anticipated and to permit him maintain as intact as possible economy and morale on which to base resumption military resistance if peace talks fail. Refusal silver loan⁹³ blow to Li. Decision reported Ecato 1169 merely to extend time limit but request no additional ECA funds for China, which decision I have communicated to Finance Minister S. Y. Liu, is not only blow to Li's Government's morale but in its and our view weakening of Li's hand at peace table. In light of basic assumption stated above, we believe it of overriding importance that remaining uncommitted funds be utilized to provide maximum support to mainland economy through summer by which time outcome peace negotiations should be known. Such support at minimum will buy time for present government and thereby slow down pace Communist advance southward, with all implications of such advance in southeast Asian countries.

⁹⁰ March 18 and 21, respectively, neither printed; the former summarized Mr. Cleveland's memorandum of March 10, p. 630.

⁹¹ Paul C. Parker, Acting Treasury Representative in China and Financial Adviser to the ECA China Mission.

⁹² For correspondence on this subject, see vol. VIII, "Political and military situation in China", chapter II.

⁹³ See telegram No. 336, February 23, 1 p. m., to the Consul General at Shanghai, p. 741.

Allocation these funds as suggested Ecato 1173 will not accomplish our objective. We recommend the following:

(1) US \$58,000,000 uncommitted as of April 2 be distributed over cotton, rice and POL⁹⁴ in balanced ratio with small amount retained for administration liquidation and related expenses. All of above commodities to be distributed on mainland. We will send detailed recommendations in later message.

(2) Consent Chinese Government be sought to programmed utilization up to \$100,000,000 from Central Bank's existing exchange and metallic reserves for purchase supplementary commodity imports.

(3) Withdrawals from and commitments against special account be cut to bone, and Chinese Government pressed to maintain realistic prices ECA import commodities which steps in combination will maximize gold yuan sterilization. This will hit JCRR projects which sacrifice we believe warranted for larger aim.

Apart from belief all remaining funds required on mainland to support even semblance economic order during peace negotiations period, we have additional reasons for believing provision for any Formosan economic programs should be separate. Assuming it is later decided to support economy Formosa, we see little point in embarking on such program on basis provided for by Ecato 1173. The amount is too small and uncertainty of continuity too great to achieve any substantial result. In following telegram,⁹⁵ based on Parker US fiscal and economic survey, we will develop character and dimensions of minimum program for Formosa which we believe would secure improvement sufficient to revive more stable economic order.

If ECA and Department accept foregoing recommendations, we believe program can be presented to Chinese Government in constructive form which will secure maximum self-help their part and reduce to minimum morale shock which is inevitable result realization further aid not forthcoming.

Please pass to Treasury. [Griffin.]

STUART

893.50 Recovery/3-2249 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, March 29, 1949—7 p. m.

TelCan 71. Language proposed note satisfactory Cantel 160 Mar 22. Essential this be exchanged FonOff prior April 3.

ACHESON

⁹⁴ Petroleum, oil, lubricants.

⁹⁵ No. 639, March 23, 8 p. m., p. 302.

893.50 Recovery/3-3149: Telegram

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

CANTON, March 31, 1949—5 p. m.

[Received March 31—8:05 a. m.]

Cantel 180. Notes on unencumbered balance special account exchanged.⁹⁶ Documents being pouched.⁹⁷ [Re] Department's telCan 71, March 29.

Sent Department Cantel 180, repeated Nanking 166, Shanghai 121 for ECA Griffin.

CLARK

893.50 Recovery/4-1549

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] April 15, 1949.

The attached ECA telegram (To ECA 1340 April 13⁹⁸) indicates that the ECA China Mission has been able to adjust its commodity procurement schedules under the residual \$53.7 million program so as to continue food and petroleum deliveries substantially through the next harvest (September 15) without disturbing \$25 million of residual funds reserved for industry on Taiwan and for continuation of the rural reconstruction program. This adjustment has been accomplished by concentrating available commodity funds on cereals, cutting petroleum deliveries to the bone, and eliminating raw cotton entirely. However, the mission reports that the Chinese are developing plans for procurement of cotton on their own account.

The mission's reference to CUSA (Chinese Government) concurrence in this program indicates that ECA's reservation of \$25 million for other than commodity procurement has been made known to the Chinese. This revelation would appear to have been unnecessary under the China legislation as just passed by Congress⁹⁹ which authorizes the President to extend aid in such manner and on such terms and conditions as he may determine.

W. W[ALTON] B[UTTERWORTH]

⁹⁶ For texts, see Department of State, *Treaties and Other International Acts Series No. 1923*; or 63 Stat. (pt. 3) 2425.

⁹⁷ Despatch No. 2, April 1, not printed.

⁹⁸ Copy not found in Department of State files.

⁹⁹ Section 12 of Public Law 47, approved April 19; 63 Stat. 50, 55.

893.50 Recovery/4-1849: Telegram

The Deputy Chief of the ECA China Mission (Griffin) to Mr. Harlan Cleveland, of the Economic Cooperation Administration

SHANGHAI, April 18, 1949—8 p. m.

Toeca 368. 1. Political conditions here require us to ask more clear-cut Washington definition ECA policy than that in amendment extending aid program. If peace delegates agree that Shanghai is to fall under coalition government, that obviously will be Communist-dominated, do we immediately divert ships? It is also possible, despite peace agreement affecting Shanghai, that Tang En-po¹ will nevertheless seek to defend city or delay its occupation for some weeks. Also possible this city may come theoretically under coalition but city itself not Communist-dominated for some weeks or months due chiefly to Communist unpreparedness to administer city of this scope.

2. All quarters convinced that if peace negotiations fail or if Li Tsung-jen unable to deliver, renewed civil war will last but short time and result in nothing but further national collapse.

3. Lack of teamwork between Generalissimo and Acting President now obvious to all, whether in military, political or foreign field.

4. We are preparing to move yarn and cloth so far as possible to Hong Kong for safekeeping and for later apportionment substantial quantities for financing JCRR. JCRR will require experienced China trader to handle commodity program.

5. Conversations of American top businessmen this weekend all affirm their deep concern over ability to pay their employees in near future. All expect complete financial prostration within two weeks. Effort being organized now among British, French and American business interests to find means to sustain public utilities.

6. It must be understood there is no definite pattern on which this Mission can make a decision at this time in planning evacuation as we have no information concerning future course events or definitiveness of Washington policy. Washington must realize that first act of diversion of ships en route Shanghai will cause extremely unfavorable attitude of all elements towards this Mission.

7. In face these conditions we must know more in detail about Washington thinking on policy. Chinese have no stockpiles of food in event our ships diverted. Furthermore, public utilities, now living hand-to-mouth, will collapse when ECA aid abandons this community. Must know whether Washington will permit flexible policy to prevent complete loss prestige foreigners and collapse [and] disorder [in] this city in event coalition takes over without resistance

¹ Commander of the Nanking-Shanghai-Hangchow garrison forces.

or despite brief period resistance Tang En-po's troops. This is required so that we may do our own planning and avoid last minute appeals. Meiklejohn² now in Japan feeling out SCAP on question of accepting diverted cargos. Please reply soonest and as definitely as possible.

Sent Washington Toeca 1368; repeated Nanking.

GRIFFIN

893.50 Recovery/4-2249: Telegram

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

SHANGHAI, April 22, 1949—3 p. m.

[Received April 22—8:57 a. m.]

1308. ReDeptel 696, April 20, 5 p. m.³ Merchant and Parker urgently called Nanking. Following reply therefore preliminary comment:

Toeca paragraph 1: Although it cannot now be foreseen how and when Communists will come into effective control Shanghai, I greatly doubt it will be difficult determine when this has in fact occurred and to order diversion ECA cargoes thereafter. Continued supply ECA rice, oil and cotton until moment takeover is essential if law and order are to be preserved in Shanghai.

Toeca paragraphs 2 and 3: I agree that Nationalist collapse appears inevitable in absence massive foreign aid; and that barring unlikely wholehearted teamwork between Generalissimo and Li Tsung-jen collapse may come quickly.

Toeca paragraph 4: In view seizure ECA supplies in Peiping and Tientsin, I see no reason leave any yarn and cloth here which can be moved.

Toeca paragraph 5: See ConGentel 1296, April 21, 8 p. m.⁴

Toeca paragraph 6 first sentence: Question evacuating ECA head office must rest primarily with ECA. ConGen has made clear its hope ECA head office will be moved at early date since many other questions will arise during emergency period of takeover and ConGen would like move to Glenline Building before emergency period starts.

Paragraph 6 second sentence and paragraph 7: I do not agree. Communists have virtually interned our personnel Mukden,⁵ seized ECA supplies Peiping and Tientsin, said in their propaganda they

² Norman V. Meiklejohn, Special Assistant to the Chief of the ECA China Mission.

³ Not printed; it requested comments of the Embassy and Consulate General on Toeca No. 1368, *supra*.

⁴ Not printed.

⁵ For correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

would not accept American aid with conditions and implied aid agreement⁶ was one of "treaties of national betrayal" which they would abrogate. They have moreover carried on vitriolic and insulting campaign against "American imperialism". Under circumstances I feel Chinese will fit shoe on right foot in fixing responsibility for stoppage ECA aid and if they do not I doubt situation would be much improved by continuing aid. On contrary I feel Communists must be made realize at most inconvenient moment for themselves they will have great need for normal relations with western nations and that their course heretofore has not conduced to such relations. Firmness now may well produce less strained relations later on.

Sent Department 1308, repeated Nanking 755.

CABOT

893.50 Recovery/4-2649 : Telegram

The Secretary of State to the Consul General at Canton (Ludden)

WASHINGTON, April 26, 1949—6 p. m.

178. For Merchant from Butterworth. You should know ECA is diverting cotton shipments from Shanghai and in process moving headquarters Canton-Hong Kong. If further large expenditures Shanghai can in fact be obviated there wld be substantial increase in sums available Formosa and other projects. [Butterworth.]

ACHESON

893.50 Recovery/4-2749

Memorandum by the Deputy Director of the ECA China Program (Nason) to Mr. Robert N. Magill, of the Division of Chinese Affairs

[WASHINGTON,] April 27, 1949.

Your request⁷ for information on ECA's activities in the North-western areas of China, namely Suiyuan, Ninghsia, Sinkiang, and Chinghai Provinces is difficult to reply to in view of the lack of pertinent data in Washington on these operations. They can be considered on the whole, as limited in scope.

During the earlier days of the China Relief Mission, aid to the peoples of the Northwest centered mainly around agricultural, welfare, and medical projects. These projects were financed from the C. N.⁸ dollar account of the Mission, and all were developed between March

⁶ July 3, 1948.

⁷ Not found in Department of State files.

⁸ Chinese national currency.

and July of 1948. A summary of the projects taken from the final report of C.R.M. is as follows:

Agricultural: Suiyuan—Anpoh Agricultural Work Relief Project. Employed 500 refugees to develop new farm land.

Suiyuan—Lui-lang Agricultural Work Relief Project. Employed 600 refugees to develop new land.

Suiyuan—Wuyen Agricultural Work Relief Project. Employed 1000 refugees on new land.

Welfare: Mongolian Banners Relief Project. Suiyuan Provincial Health Administration—3 projects assisting 2100 refugees with work relief.

Medical: Ikchao Mongolian Health League Station, Paotou, Suiyuan; which included the local purchase of mule carts for mobile working units.

Ulanchab Health Station, Suiyuan (as above).

Suiyuan Provincial Health Administration Project. (5 projects).

Alashan Banner Health Station Project.

Under the ECA program an attempt seems to have been made to get away from the medical and welfare assistance and to try to aid these peoples in food production. To this end, the JCRR has initiated a project on sheep and wool rehabilitation around and in Ninghsia. Unfortunately, we have no particular knowledge in Washington of the stage of progress concerning this program. However, it is being administered by an American member of the ECA staff in cooperation with the local authorities.

ECA has also sent a certain small amount of medical supplies to these areas which are now, we understand, enroute to Tihwa. These supplies total around US\$800.00 in value.

No other information is available in Washington at this moment, but, if necessary, a comprehensive study can be requested from the Mission by cable.

JOHN B. NASON

893.50 Recovery/4-2849 : Telegram

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

SHANGHAI, April 28, 1949—midnight.

[Received April 28—10:38 a. m.]

1418. I am disturbed by publicity re Chinese matters emanating from Washington. Yesterday's ECA statement re stoppage ECA shipments to Shanghai with particular reference cotton shipments has already caused strong reaction among workers in local cotton mills. Whereas I realize stoppage ECA shipments is inevitable under [Presi-

dent's?] directives⁹ when Communists take Shanghai, it seems to me there is no necessity for emphasizing this fact now. We do not wish to be placed in position, I am sure, of disrupting Shanghai's economy by premature stoppage shipments in event Shanghai is left dangling on vine by Communists nor do we wish appear be positively seeking disrupt Shanghai's economy unless it becomes evident we must use this weapon bring Communists to book. Griffin concurs.

I have also noted reference to Nanking's radio in Washington despatch. I do not need remind Department this is looking for trouble.

Sent Department 1418, repeated OffEmb Canton 357.

CABOT

893.50 Recovery/4-2949 : Telegram

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

SHANGHAI, April 29, 1949—4 p. m.

[Received 6:19 p. m.]

1442. [Garble] information ECA. In long talk with Acting Mayor this morning, latter informed me that (1) Shanghai would be strongly defended; (2) there are 300,000 soldiers now available for defense to be increased to 500,000. Perimeter of field fortifications has been built to depth 30 kilometers from city which will cover mouth Whangpoo. Tanks and other equipment are available in event break-through in any sector. Naval and air forces also available. All disaffected troops have been removed from city. (3) First attack not expected within 10 days. Communists may decide by-pass city in view strength defenses and problems its possession would entail. (4) City authorities would like stockpiles 200,000 tons rice and 300,000 tons coal provided by ECA if possible.

While I am inclined view Acting Mayor's statements with considerable skepticism, they do emphasize possibility Shanghai might not fall for some time. I informed Mayor it was our purpose continue ECA supplies to Nationalist-held Shanghai as long as river is open and junks are available but did not encourage his stockpiling idea. He did not comment on report which I mentioned to him that he planned remain Shanghai even for Communist occupation.

Although I feel ECA supplies to Shanghai should be trimmed to prudent levels, I am strongly of opinion we must not divert so many cargoes as to risk disruption Shanghai life before or immediately after Communist entry. Our tactic I feel should place onus on Communists if such disruption occurs.

Sent Department 1142; repeated Embassy Canton 370.

CABOT

⁹ See Mr. Butterworth's memorandum of January 10, p. 613.

893.50 Recovery/5-349 : Telegram

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

NANKING, May 3, 1949—5 p. m.

[Received May 3—7: 17 a. m.]

926. [To Shanghai:] British Ambassador¹⁰ has informed me of your and Urquhart's¹¹ summons to Acting Mayor's office to receive plea for increased economic aid to permit Shanghai to hold out longer period against Communists. Stevenson is telegraphing British Consulate General that he does not approve any plan of economic assistance which would permit Chinese carry out their plans to defend Shanghai militarily. He asked my support in sending similar message to you.

I am in general agreement with Stevenson's views that military defense of Shanghai is senseless and futile causing unnecessary suffering and hardship to millions of people. Apart from tapering ECA program as contemplated, I feel no additional economic assistance should be considered Shanghai unless latter is declared and recognized "open city" by both sides.

Sent Shanghai 493, reported Dept, OffEmb Canton 346.¹²

STUART

893.50 Recovery/5-549

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 5, 1949.

Mr. Ford¹³ called today by appointment and handed me the attached document¹⁴ regarding supplies for Shanghai on which he desired to have some clarification for the British Foreign Office.

I informed him, as Mr. Butterworth and other officers of the Department had previously explained to Mr. Graves¹⁵ and Mr. Ford, that ECA had on hand in Shanghai sufficient cotton stocks for about two

¹⁰ Sir Ralph Stevenson.¹¹ Robert W. Urquhart, British Consul General at Shanghai.

¹² In telegram No. 1509, May 4, 8 p. m., the Consul General at Shanghai indicated his assumption that the last paragraph of the message above "does not mean we should reduce present program maintaining adequate minimum supplies to keep Shanghai economy running so long as it remains Nationalist hands. I feel we would be as much criticized for pulling rug out from under defense as we would for taking positive measures encourage defense. There has been much discussion Shanghai possibility having it declared open city, but I always taken attitude that, while inherently desirable, is not matter which I in position to push." (893.50 Recovery/5-449)

¹³ J. F. Ford, First Secretary of the British Embassy.¹⁴ *Infra*.¹⁵ Hubert A. Graves, Counselor of the British Embassy.

or two and a half months, that it was continuing to supply sufficient cereals to carry through during the interregnum and that it was keeping sufficient petroleum supplies to keep the power company going through such a period. I pointed out that this might mean that a certain amount of stocks would be available at the time of a Communist take-over of the city but that it was impossible to cut the margin too closely.

With respect to the inquiry in the document presented by Mr. Ford regarding an arrangement whereby ECA stocks would be released to some other body and supplied by them to Shanghai, I pointed out that for ECA to take action which would in effect result in the delivery of such stocks to areas taken over by the Chinese Communists would represent an evasion of legislation authorizing ECA aid to China and also an evasion of a clearly expressed intent of the Congress.

Mr. Ford said that he would communicate the gist of the foregoing to the British Foreign Office for its information.

893.50 Recovery/5-549

The British Embassy to the Department of State

SUPPLIES FOR SHANGHAI

His Majesty's Government in the United Kingdom have always had in mind the possibility that the Chinese communists might decide to sever Shanghai from its hinterland and leave it to starve. Whether or not this is their present policy the town is now effectively cut off from indigenous supplies and in consequence dependent on outside help for its existence.

Failure to support Shanghai with essential supplies of rice and coal could be very serious for our foreign communities and yet, as seen by His Majesty's Government, these supplies can only come from Economic Cooperation Administration stocks.

The legal conditions under which the Economic Cooperation Administration operates in China are fully understood and there is no intention of questioning them. Would it not, however, be possible to contrive some arrangement whereby stocks at present earmarked to the Economic Cooperation Administration could be released to some other body and supplied by them to Shanghai? If so, the difficulty in which the Economic Cooperation Administration is placed in relation to those parts of China under communist threat or already under communist domination might be overcome.

[WASHINGTON,] 5 May, 1949.

893.50 Recovery/5-1349: Telegram

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

NANKING, May 13, 1949—noon.
[Received May 17—2:54 a. m.]

1016. Tsingtao's 142, May 10, repeated Embassy Canton 47, Department 183,¹⁶ impresses us as highly reasonable and we strongly recommend its points be given thorough consideration by Department and ECA with view to alleviation situation Tsingtao. Not only would provision coal and cotton till June 30 help maintain internal order and prevent public impression ECA aid tied to presence US Naval Forces there; important also would be contrast between working industry and maintenance reasonable level employment via ECA supplies before turnover and probable lack activity mills after turnover owing Commie raw cotton shortages.

Same time must keep mindful impression a mill at that city can be taken by Commies at will, which merely indicates shipment coal or cotton Tsingtao should, if possible, be in several small amounts each useful for minimum period, say 2 weeks. If June 30 announced as closing date ECA Tsingtao (reference telegram), we think efforts should be made maintain program until then barring Commie takeover.

Sent Department 1016; repeated OffEmb Canton 408, Tsingtao 56.

STUART

893.50 Recovery/5-1349

The ECA Administrator (Hoffman) to the Secretary of State

WASHINGTON, May 13, 1949.

DEAR MR. SECRETARY: Section 12 of Public Law 47, 81st Congress, makes funds available to the President for assistance in areas in China which he may deem to be not under Communist domination. By letter dated May 3, 1949,¹⁷ the President delegated to the Administrator of the Economic Cooperation Administration authority to render such assistance in such areas as the Secretary of State deems to be not under Communist domination.

¹⁶ Not printed; it reported the Consulate General's view that the ECA should take all reasonable steps to maintain Tsingtao's economy until its June 30 closing date there or until Communist takeover, whichever was earlier. Apart from humanitarian aspects and use of supplies to the greatest effect, it justified such a program on the grounds that it would be a demonstration of continuing American interest in the people without reference to the use of Tsingtao as a naval station and would create good will (893.50 Recovery/5-1049).

¹⁷ Not printed; a copy was transmitted on May 3 to the Secretary of State by William D. Hassett, Secretary to President Truman.

ECA is presently providing food for the ration systems of the cities of Tsingtao, Shanghai, Swatow and Canton. It is financing the import of petroleum into Tsingtao, Shanghai, Amoy, Foochow, Swatow and the island of Taiwan, is arranging the distribution of cotton in Shanghai, Canton, Tsingtao and on Taiwan. It has arranged for the distribution of fertilizer in Fukien, Kwangtung, Kwangsi, Chekiang provinces, in the areas immediately surrounding Shanghai, and on the island of Taiwan.

In addition to the foregoing, the Joint Commission on Rural Reconstruction is supporting projects in Szechwan, Hunan, Kwangsi, Kwangtung, Fukien, Chekiang, Ninghsia, Kansu provinces, and on the island of Taiwan.

Support formerly extended to projects in Kiangsu, Hunan, Anhwei and Chekiang provinces by the Joint Commission has been withdrawn as the areas concerned have been occupied by Communist military forces. In all cases, aid has been withheld from areas or projects actually occupied by Communist forces or where avowedly Communist governments have been installed.

I should appreciate your advising me that you deem the above areas to be not under Communist domination. I should also appreciate your advising me whenever you deem that the status of these areas changes so that termination of assistance in areas coming under Communist domination can be promptly effected.

Sincerely yours,

PAUL G. HOFFMAN

893.50 Recovery/5-1749: Telegram

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

CANTON, May 17, 1949—5 p. m.
[Received May 16—11:52 p. m.]

Cantel 397. Perceive no objection movement JCRR westward (Toeca 93, May 16,¹⁸ fourth paragraph), so long as no false hopes that such action will influence resistance in any material way. There are in fact leaders with no place else to go who are desperately trying organize resistance from Szechwan. Nevertheless, my considered opinion is that Communists have capability occupying any part China they desire on their own timetable.

CLARK

¹⁸ Not printed.

893.50 Recovery/5-1849: Telegram

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

SHANGHAI, May 18, 1949—2 p. m.

[Received May 18—12:34 p. m.]

1706. For Lapham. I trust ECA will try prevent diversions of food and oil cargoes until it is clear Whangpoo has been irremediably closed even to lighters. While I do not expect Nationalists will hold Shanghai for very long, it seems to me vital in fairness to them and our commitments not to divert cargoes until they clearly cannot enter Shanghai. As you know, authorized 30-day stockpile has by no means been attained either for rice or oil and each day siege continues means just 1 day's less margin from disaster after Communists enter.

Sent Canton 484; repeated Department 1706; Nanking 943.

CABOT

893.50 Recovery/5-1849

Memorandum by the Under Secretary of State (Webb)

[WASHINGTON,] May 18, 1949.

Subject: Résumé of conclusions reached at the Secretary's discussion of the ECA China program with the Under Secretary, Mr. Butterworth and Mr. Labouisse on Wednesday, May 18, 1949.

1. *Shanghai*—In the event that the Whangpoo River again becomes safe for commercial shipping to Shanghai before the Communists actually take control of the city, ECA might send in minimum quantities of food and petroleum necessary to prevent starvation and maintain essential electric power output. (A draft statement is attached¹⁹ for possible use if such a contingency should arise.) No further shipments of ECA cotton should be made merely to maintain employment in the mills. It was recognized that the Communists might leave the river approach to the city open and cease their military offensive in the hope of achieving a peaceful turnover, or of inducing continuation of American aid until the harvest made possible adequate food supplies from the interior. In such circumstances, cessation of U.S. aid might be attacked as abandonment of the free people of Shanghai to the Communists, or continuation of aid might be criticized as representing assistance to the Communists. Obviously, no blueprint for U.S. action can be drawn up, and any resumption of ECA shipments would have to be on a highly tentative basis.

¹⁹ Not printed.

2. *Extension of ECA aid to non-Communist areas in the interior of China.*—

a) *Commodity programs*—No new programs of commodity aid should be undertaken by ECA on the mainland of China if Canton falls to the Communists.

b) *Rural Reconstruction*—The Joint Commission should be encouraged to move its headquarters to Southwest China. Continuation of this program as long as feasible in non-Communist areas would be a desirable demonstration of U.S. interest in the welfare of the Chinese people without being subject to the misinterpretation regarding U.S. intentions which new U.S. programs of commodity assistance might entail. It should be made clear, however, that the U.S. can assume no responsibility for the safety and future well-being of Chinese who participate in the Rural Reconstruction Program.

3. *Taiwan*—No decision regarding Taiwan can be reached pending a review of the situation with Mr. Merchant who is returning to the Department for consultation. Reconsideration by the NSC²⁰ of policy towards Taiwan may be necessary.

893.50 Recovery/5-1949

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] May 19, 1949.

At a meeting held in the Secretary's office this morning, attended by the Secretary, Mr. Hoffman, Administrator for Economic Cooperation, Mr. Cleveland,²¹ ECA, Mr. Butterworth, FE, Mr. Merchant, FE, and Mr. Sprouse, CA,²² the discussion was devoted to the question of the future ECA program in China. Mr. Hoffman explained that ECA wished to be certain that its future program in China was carried out within the framework of United States policy and then raised for discussion certain problems in connection with the program. The following decisions were reached with respect to the continuation of the ECA program in China:

1. *Shanghai.* ECA deliveries of food for the rationing program and fuel to ensure the continued operation of the public utilities would be continued provided such deliveries did not necessitate what would, in effect, constitute the "running of a blockade" by American shipping. If the present Communist siege, which has halted the entry of American flag vessels into Shanghai, were lifted sufficiently to permit the safe

²⁰ National Security Council.

²¹ Harlan Cleveland, Executive Assistant to the ECA Assistant Deputy Administrator for Program (Bissell).

²² Philip D. Sprouse, Chief, Division of Chinese Affairs.

passage of American shipping and if the Communists were still not in occupation of the city, there would be no objection to the use of American flag vessels for the delivery of ECA commodities to Shanghai. Further deliveries of ECA commodities in American vessels would, in brief, be resumed if conditions at Shanghai made possible the resumption of normal shipments of commercial cargo to Shanghai and if the city were still not under Communist control. Deliveries would not be made in American vessels if the entry of American flag shipping endangered the lives of the crews or the ships, but there would be no objection to the use of Chinese shipping, or Chinese lighters from a safe anchorage point on the Yangtze River, for the continued delivery of ECA commodities prior to Communist occupation of Shanghai. ECA would not underwrite any risks encountered in deliveries to Shanghai. If the partial lifting of the Communist siege without Communist occupation of the city, thus enabling the continued delivery of ECA commodities, were to continue for an indefinite period, it would be necessary to review this decision. Cotton would not be included in the commodities to be delivered to Shanghai in the future.

2. *Canton*. Food and fuel should continue to be delivered to Canton and other cities in south China now included in the program on the basis of minimum stock-piles as long as these cities remain under non-Communist control, but no new program of this nature should be initiated.

3. *ECA Personnel*. ECA Mission Headquarters, as such, should not move to west China, but a small regional group should remain at Canton to continue the program at that city as long as possible. Any movement of ECA personnel to Taiwan should be limited to a small number. The movement of the Headquarters should be "played by ear".

4. *JCRR*. The JCRR program should be continued and expanded where possible in areas of west China not under Communist control. Legislative authority exists for its continuation until February 15, 1950 and a proposal to continue the rural reconstruction program in China under the President's Point IV Program²³ has been included in the draft budget proposal for technical assistance to underdeveloped areas. JCRR Headquarters may be moved to Szechuan or to some other point in west China, but the removal of the Headquarters should not be carried out in such a way that it plays any part in the decision of the Chinese Government regarding its removal

²³ The fourth major course of action set forth in President Truman's inaugural address of January 20, whereby benefits of American scientific advances and industrial progress would be made available for improvement and growth of underdeveloped areas; for text of address, see Department of State *Bulletin*, January 30, 1949, pp. 123-126.

from Canton or the site of its possible new location. The removal of the JCRR Headquarters should follow rather than precede the decision of the Chinese Government regarding its removal from Canton. The U.S. Government should not place itself in the position of guaranteeing the safety of the Chinese members of the JCRR or of the JCRR staff.

5. *Formosa.* Consideration of the general problem of Formosa and the ECA program on the island should be deferred for subsequent discussion with Mr. Merchant, who has just arrived in Washington from Formosa for consultation on this problem. The J. G. White engineering staff should be maintained by ECA for the time being under its present contract, giving whatever informal advice and assistance is feasible to the local Chinese authorities on Formosa, until a final decision is reached on the over-all problem of Formosa.

893.50 Recovery/5-1349

The Acting Secretary of State to the ECA Administrator (Hoffman)

WASHINGTON, May 21, 1949.

MY DEAR MR. HOFFMAN: I am in receipt of your letter of May 13, 1949 to the Secretary in which you request that the Department advise you as to whether or not the areas of China in which ECA is now operating are under Chinese Communist domination.

None of the cities in which ECA is presently providing food, petroleum and cotton is now under Communist domination, nor is the island of Taiwan. As to the areas in which ECA has arranged for the distribution of fertilizer, the Chinese Communists now control much of the area immediately surrounding Shanghai, and their armies are reported to have advanced well into Chekiang and Fukien Provinces.

Of the areas in which the Joint Commission on Rural Reconstruction is supporting projects, the Chinese Communist armies are, as indicated above, now in Fukien and Chekiang. There is no information, however, that they have as yet entered Hunan, although they are reported in southern Hupeh adjacent to Hunan Province.

It is not possible to indicate, without more detailed specification of the location of Rural Reconstruction projects, whether the entry of Chinese Communist armies into a province means that the more limited areas in which the projects are actually being carried out are themselves dominated by the Chinese Communists. There is necessarily a considerable delay at times before such information is available in Washington.

Attached for your reference is a map of the military situation in south China as of May 12, 1949 produced by the Central Intelligence

Agency. Arrows indicating recent Chinese Communist advances have been added with red crayon to bring the map into line with the latest information available from CIA.

I have instructed the Director of the Office of Far Eastern Affairs to keep appropriate officers of the Economic Cooperation Administration informed of any changes in the political and military situation which result in control by the Chinese Communists of areas in which the ECA is extending assistance.²⁴

Sincerely yours,

JAMES E. WEBB

893.50 Recovery/5-2549

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 25, 1949.

Mr. Ford informed me today that the British Embassy had received a telegram from the Governor of Hong Kong reporting his conversations with Mr. Lapham and Consul General Hopper in regard to the question of the establishment of ECA headquarters in that city. He said that the Governor had informed them that he had no objection to the temporary establishment of ECA headquarters at Hong Kong for the purpose of "winding up" ECA operations, it being estimated that this would require from six weeks to two months. Mr. Ford added that the Foreign Office had concurred in the decision of the Governor of Hong Kong as conveyed to Mr. Lapham and Consul General Hopper.

893.50 Recovery/6-1949: Telegram

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

SHANGHAI, June 19, 1949—11 a. m.

[Received June 19—7:14 a. m.]

2350. Consul General [at] Shanghai strongly supports specific recommendations contained draft resolution ShaECA 261, June 16 [17] repeated Washington 3010 [2110]²⁵ regarding disposal ECA raw cotton and yarn cloth assets Shanghai.

²⁴ On May 27 the Department informed the ECA "that the city of Shanghai is now controlled by the Chinese Communists".

²⁵ ECA telegram not printed; it set forth two plans to dispose of ECA cotton and yarn in Shanghai. Plan one involved releasing cotton to Shanghai mills immediately; ECA yarn and yarn produced from ECA cotton were to be exported for sale or barter to ensure continuing supplies of cotton. Plan two provided for ECA to release its cotton and yarn to welfare agencies (893.50 Recovery/6-1749).

Consul General emphasizes these assets delivered prior Communist take-over under 30 days supply policy to keep mills running as means contributing political [and] economic stability during interim period. Proposed method distribution raw cotton to mills and disposal yarn cloth processed therefrom follows substantially ECA policies [and] procedures in effect on their importation. Likewise proposed payments of counterpart funds whether by mills for delivery raw cotton or on sales yarn cloth may be regarded as compensation on ECA "sales" in which Communist authorities not directly involved as such. Similarly use counterpart funds meet administration expenses and distribution voluntary relief agencies also in line prior ECA policies.

Consul General believes draft resolution affords realistic solution to problem disposal of ECA assets which Communists will certainly confiscate if terms of disposal offered by ECA unacceptable to them, as to all intents [and] purposes Communists hold these assets under their control. Consul General believes prompt action necessary if confiscation to be avoided as on basis optimistic estimate Chinese coastal mills at present rate consumption have only 6 weeks raw cotton on hand, including mill and wharf stocks, ECA cotton, and foreign raw cotton contracted on yarn barter deals, assuming Communists will permit consummation outstanding contracts. Moreover, these mills will need 200,000 bales²⁶ foreign imports at least to carry mills over until availability Chinese crop late October. Pressure on Communists for effective use ECA cotton assets accordingly very heavy. ConGentel regarding comprehensive cotton report follows.²⁷

As Communists can confiscate these assets at will and may do so if we insist on stiff-necked adherence marching orders or other ECA instructions unacceptable to them, Consul General feels SRO²⁸ requires delegation authority deal promptly, effectively and flexibly with Communist proposals this subject. Consul General also regards draft resolution as satisfying specific mandate Congress to avoid continuance direct aid to Communist area on grounds (1) assets delivered prior take-over meet interim needs, (2) ECA receiving counterpart funds in "payment for sales", proceeds of which usable advance US policy objectives, and (3) SRO has no control over assets other than Communists choose permit; therefore any plan disposing of them must be agreeable to Communists. Thus far Communist attitude toward ECA assets cautious, moderate, reasonable, justifying similar attitude our part. However, must emphasize amicable settlement this question important all American interests in China. Amicable solution this prob-

²⁶ In telegram No. 2369, June 20, 7 p. m., the Consul General at Shanghai revised this figure to 300,000 bales (893.50 Recovery/6-2049).

²⁷ No. 2352, June 19, 5 p. m., not printed.

²⁸ Shanghai Regional Office of ECA China Mission.

lem might materially strengthen hands any moderate elements among Communist leadership seeking more amicable relations with us and Atlantic Powers. Therefore most important we make no misstep this issue likely to jeopardize delicate balance here. Consul General believes SRO proceeding along sound lines to effect amicable solution in terms most likely serve (1) national interest USA, (2) American interests China and (3) salvage residual assets and goodwill of ECA program.

Repeated Nanking 1247, OffEmb Canton 743.

CABOT

893.50 Recovery/6-2049

*Mr. Harlan Cleveland, of the Economic Cooperation Administration,
to the Director of the Office of Far Eastern Affairs (Butterworth)*

WASHINGTON, June 20, 1949.

DEAR MR. BUTTERWORTH: Acting Secretary Webb's letter to Mr. Hoffman of May 21 raises the point that more detailed specification of the location of Rural Reconstruction projects is necessary than that provided in Mr. Hoffman's letter of May 13 to Secretary Acheson before it can be determined whether entry of Communist armies into a province means that the more limited areas in which the projects are being carried out are themselves dominated by the Chinese Communists.

I infer from Acting Secretary Webb's letter that the question of assistance to areas which are deemed to be under Communist domination is not considered to arise at present with regard to projects in Szechwan, Kwangsi, Kwangtung, Ninghsia and Kansu provinces, or on the island of Taiwan. We would be pleased to have confirmation of this, or whatever statement of exception you find appropriate.

With respect to the remaining provinces in which Rural Reconstruction projects are being carried on, Fukien and Hunan, the more specific location of activities is as follows:

(1) An integrated project in six hsien around Lunggen, northwest of Amoy, in Fukien. Our latest information is that the Commission has already decided to withdraw its support from this project.

(2) A project to provide water buffalo, demonstrate use of fertilizers, and assist the development of farm cooperatives to supply cheaper credit to farmers, has been approved and is still operating in six hsien of the 7th Prefecture of Fukien.

(3) There is some continuing work on a rural health program in the districts centering around Lingsen, Putien, Chingkiang and Lyngyen in Fukien.

(4) Plans have been approved by the Commission for small projects combining several aspects of rural reconstruction work, operating through the Fukien Christian Rural Service Union and the Fukien

Christian University, in several hsien immediately surrounding Foochow.

(5) There is a program for seed multiplication and distribution spread widely over Hunan. It has been the practice in such projects to withdraw whenever Communist forces approach. This places the decision, unfortunately, upon the field personnel of JCRR. Unless it is possible to specify the parts of the province of Hunan that are Communist-dominated, the only practical alternatives appear to be to withdraw entirely from the province in the case of this type of project, or else continue to leave the decision to JCRR field personnel under appropriate instructions.

(6) Lin Lake project is a small project west of Hengyang which is continuing through June under present plans.

(7) The Tung Ting dike repair project, the biggest single one of all of the Commission's projects, involves work of which 90% is around the northwest corner of Tung Ting Lake. This work is continuing. The work on the northeastern corner of the lake, which involved about 10% of ECA funds advanced to this project, has for some time been receiving no support from the Commission or from ECA.

I hope that the above specification of locality will be sufficient to permit any determination of Communist domination that it may be necessary in the future to make.

Sincerely yours,

HARLAN CLEVELAND

893.50 Recovery/6-2249 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 22, 1949—7 p. m.

TelCan 369. Clark authorized negotiate extension JCRR agreement in consultation with Moyer accordance Ecato 257 June 21.²⁹ Dept and ECA suggest fol draft note to Chi Govt :

"I have the honor to refer to the agreement between our two Govts constituted by the exchange of notes dated August 5³⁰ providing for the establishment of a Sino-American Joint Commission on Rural Reconstruction in China.

My Govt proposes that the agreement be extended until the date of termination of the Economic Aid Agreement between our two Govts concluded July 3, 1948, and that references in the exchange of notes to Section 407 of the China Aid Act of 1948 be deemed to include reference to Section 12 of Public Law 47, 81st Congress.

This note and Your Excellency's reply accepting the above proposal will constitute an agreement between our two Govts."

ACHESON

²⁹ Not printed.

³⁰ For texts, see Department of State, *Treaties and Other International Acts Series No. 1848*; or 62 Stat. (pt. 3) 3139. For correspondence preceding exchange, see *Foreign Relations, 1948*, vol. VIII, pp. 601 ff.

893.50 Recovery/6-2449 : Telegram

The Deputy ECA Administrator (Foster) to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 27, 1949—noon.

Ecato 271. [Re] Toeca 2110³¹ repeated Canton Shaeca 261; ECASha 226, repeated Wash Toeca 285; Toeca 204 repeated Shanghai ECASha 199; ECASha 190 repeated Wash Toeca 203.³²

1. Amplification marching orders you requested Toeca 204 now possible due better understanding application policy to complicated situation Shanghai.

2. In interpreting marching orders for Shanghai, you and SRO should be guided by following general principles:

(a) You are to seek earliest possible liquidation ECA responsibilities Shanghai consistent with need for making orderly arrangements and adhering to ECA policies.

(b) You should avoid any arrangement which would be open to interpretation that it assists Communist government or provides for any continuing help for Communist areas flowing from ECA program. For example, Plan One in Toeca 2110, June 17, suggested setting up revolving fund to finance additional raw cotton imports into Shanghai. This would violate principle of no continuing help to Communist areas.

(c) Main emphasis under present changed conditions should be on making sure ECA residual stocks serve humanitarian purposes.

(d) Methods and procedures must be left to you within principles established in marching orders as modified by this cable.

(e) St. Louis³³ should keep ECA/W³⁴ as closely and promptly informed as possible. Major decisions, or decisions involving political questions not dealt with in this cable, should be referred to Washington.

3. In line with above principles, Plan One is not acceptable because of the revolving fund feature. It appears that Plan Two is impractical in view of impossibility expect welfare agencies to handle problems involved in managing, processing, and distribution of large amounts of cotton under present conditions in Shanghai. Therefore, we believe that general scheme in draft resolution Toeca 2110 appears to be the best arrangement under the circumstances.

4. The priority for the allocation of local currency proceeds should be generally in the following order: (a) ECA administrative expenses,

³¹ Not printed; see footnote 25 to telegram No. 2350, June 19, 11 a. m., from the Consul General at Shanghai, p. 649.

³² ECA messages not found in Department of State files.

³³ George W. St. Louis, Assistant Deputy for Operations of ECA China Mission.

³⁴ ECA/Washington.

(b) welfare agencies and projects previously receiving aid such as Chien Tang sea wall, (c) administrative expenses of Embassy and Consulate. If use of proceeds for Embassy and ConGen administrative purposes raises political questions with Communists, you should refer matter to Washington, and avoid any breakdown of negotiations on this account.

5. Plan should if possible be formalized in some way in writing, and should be subject of full report from SRO with copies of any basic agreements or exchanges of letters.

6. Cotton should be sold not subject to quality claims and price should be invoice value landed Shanghai. Weight to be taken as determined by Shanghai Controller. Twenty percent sample should be drawn at time of weighing and sent to Kobe when feasible for classing for ECA purposes.

7. Following are some specific queries which are cited both as considerations in your negotiations and as points which final SRO report on this operation should be sure to cover: Why replace SAC³⁵ with *Ad Hoc* Committee? What personnel proposed for membership new committee? This important in view proposed powers. Do you consider collective guarantee mill owners association members effective insurance of full payment to beneficiaries?

8. In line with above instructions, St. Louis authorized to negotiate final arrangement subject to above principles and in consultation with American Consulate General and Ambassador, if available.

9. Careful presentation this problem in your Toeca 2110, June 17, much appreciated here and greatly assisted rational consideration of problem on this end.

10. This cable represents views of both Department and ECA, including Lapham and Griffin.³⁶

Repeated Shanghai as Ecato 1436.

FOSTER

893.50 Recovery/6-2749: Telegram

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

CANTON, June 27, 1949—4 p. m.

[Received June 28—5:49 a. m.]

Cantel 652. Note with text contained telCan 369, June 22 delivered Foreign Office today. Foreign Office agreeable extension JCR and

³⁵ Shanghai Assistance Committee.

³⁶ Both returned to Washington after completing their work with the ECA China Mission.

reply will be sent US tomorrow. Will telegraph when reply received³⁷ and notes will go forward by pouch.³⁸

CLARK

893.50 Recovery/6-2749: Telegram

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

NANKING, June 27, 1949—7 p. m.

[Received June 27—2:08 p. m.]

1388. ShaECA 261, repeated Washington Toeca 3010 [2110], June 17,³⁹ for information has just reached Embassy.

At outset I should like emphasize my strong opinion that agreement should be reached on a method of disposal these assets acceptable to us as soon as possible. Our position will be far stronger and less vulnerable, if we put forward a reasonable solution meeting needs of mills and people of Shanghai. Communist confiscation of assets prior to US proposal would permit them to accompany such confiscation with much more public vilification of US than if we had present reasonable plan of which they refused to permit acceptance. In my judgment this issue is not large enough for us to risk confiscation and the ensuing bitterness and unfavorable influence it would continually exert on whatever informal relations we shall have with Communists in future.

As outlined in reftel, Plan One contains no promise of the early liquidation of SRO and would provide no counterpart proceeds.

On other hand, as I understand it, plan proposed in SAC resolution⁴⁰ is the very type of reasonable solution we seek. We must face fact cotton and yarn exist in Shanghai today as foreign exchange asset which Communists in their present desperate economic straits will most likely insist upon acquiring with or without our consent to provide further raw cotton imports. Under draft resolution we make no gifts to Communists; rather we receive *quid pro quo* representing full local currency value of assets. It provides us with a continuing check on disposition of counterpart funds, raises no questions of future recognition of Communists by US, and more important it foresees time when SRO would conclude its work and ECA depart Communist

³⁷ Cantel No. 662, June 28, 6 p. m., not printed.

³⁸ Despatch No. 18, June 28, not printed; for texts of notes dated June 27, see Department of State, Treaties and Other International Acts Series No. 1975; or 63 Stat. (pt. 3) 2702.

³⁹ Not printed; see footnote 25 to telegram No. 2350, June 19, 11 a. m., from the Consul General at Shanghai, p. 649.

⁴⁰ This resolution was a compromise between the two plans whereby cotton and yarn would be sold to cotton mills and sales proceeds would be allotted to welfare agencies.

China. Also, I have good reason to believe Communists would find this particular plan acceptable.

Suggest proposition Embassy and Consul General be provided with portion sales proceeds mentioned paragraph *c* reftel not be permitted interfere with early agreement general question cotton disposal.

I hope also that in approaching this problem SRO and authorities Washington require that adequate publicity locally accompany actual distribution of assets and of proceeds which come into hands of relief and welfare agencies.

Repeated Shanghai 770, Canton 486.

STUART

893.50 Recovery/8-549

*The Chief of the Economic Cooperation Administration China Mission (Lapham), Recalled to Washington, to the ECA Administrator (Hoffman)*⁴¹

WASHINGTON, June 30, 1949.

DEAR MR. HOFFMAN: This letter records a general account of the China Mission's activities to date; and it outlines the more important events which took place between my first arrival in China, June 7, 1948, and my final departure, May 24, 1949.

At the outset I knew little about the events leading up to the passage of the China Aid Act (approved April 3, 1948)⁴² nor was I familiar except in a most general way with what had happened in China during the war years and since VJ Day. I had spent several weeks in Shanghai and Peiping, in June 1937, and a few days in Shanghai and Nanking on a trip around the world in June 1947; other than that, I had had no first-hand knowledge of the country.

One year on this job has not made me an "old China hand", but in that short time I have had most unusual opportunities to meet, in many parts of China, many Chinese leaders in government, business, and education. Until recently the Mission maintained its operating headquarters in Shanghai, official headquarters in Nanking. It has had regional offices in Peiping, Tientsin, and Tsingtao, and still maintains regional offices in Canton, Swatow, and Taipei (on the island of Taiwan, old name Formosa). During the year, I have flown well over 30,000 miles within China (flying miles in all since joining ECA, over 100,000 including three round trips between China and Washington); and have seen China by train, steamer, and automobile as well.

The Mission has kept close relations with Ambassador Stuart and the Embassy staff (I visited Nanking eighteen times). Contact between

⁴¹ Copy transmitted to the Department by Mr. Cleveland on August 5.

⁴² 62 Stat. 158.

the Mission and our Consular offices in different cities has been frequent, almost continuous. I have consulted Vice Admiral Badger ⁴³ and other Navy officers on numerous occasions; and, while the Army Advisory Group commanded by Major General Barr remained in China, the Mission kept contact with that group. We have talked many times with our military and naval Attachés. In short, the Mission has done its utmost to consult and advise with all Americans in China, whether in government, business, missionary, medical, or educational fields—not to mention American newspaper correspondents. Our aim has been to gain all information possible from all sources.

At no time has the Mission had more than 100 Americans on its staff in China. Today there remain only twenty or so. Because of the great size of the country and its inadequate transportation and communication facilities, our Mission has had to face and overcome many unusual difficulties and, of course, these difficulties were progressively multiplied by civil war conditions.

I record my thanks to my Deputy in China, Colonel Robert Allen Griffin, as well as to all members of the Mission Staff—some who spoke Chinese and many who had had previous experience in China. Without their loyal help and willingness to work all hours of the day and night, the Mission could never have accomplished as much as it has, handicapped by the relatively small amount of dollars allowed for organization overhead. I shall ever be grateful to the men and women who served me in conducting what I term “a successful failure”.

Nor am I unmindful of the difficult task you, as Administrator in Washington, have faced; and the assistance rendered by the China Program staff ably directed by Mr. Harlan Cleveland. It is never easy to coordinate ideas and thinking when separated by over 10,000 miles, and with a handicap of coded cables. The necessary contact with the State Department has been well maintained in Washington, as well as the essential contact with the Congress.

Studying the China Aid Act of 1948, Section 402 clearly indicated to me that our Mission was expected to strengthen and uphold the Republic of China—the Nationalist Government—by any legitimate economic means. I was aware that \$125,000,000, over which this Mission had no control, had been voted for military aid; and I assumed that the \$275,000,000 appropriated for economic aid not only could but should be used to assist the Nationalist Government in resisting attempts of the Chinese Communists to overthrow it.

When I first met Ambassador Stuart on June 8, I asked him how economic aid might be used to supplement military aid. His one sug-

⁴³ Vice Adm. Oscar C. Badger, Commander, United States Naval Forces, Western Pacific.

gestion was to include Tsingtao in our food rationing program, along with other cities. This was done.

Much of my time the first few weeks in China was devoted to organizing our staff, arranging to take over some of the activities of the China Relief Mission as of June 30, and generally familiarizing myself with the many details involved. We spent some time also with the Embassy staff, working on the bilateral agreement signed in Nanking on July 3.

In late July and early August, I flew to Tientsin, Peiping, and Kalgan, and into the beleaguered cities of Taiyuan and Mukden for a brief visit. At that time most of the Communist military activities were centered in North China and Manchuria. The mission was supplying part of the food rations and petroleum products for Peiping, Tientsin, and Tsingtao, and raw cotton for the textile mills in Tientsin and Tsingtao.

During this visit to North China I learned that strong feeling existed, not only among the Chinese but also among the Americans in that area, that the Nationalist Government was not giving proper military or other assistance to that region. Right or wrong, the feeling was that Nanking had written off North China, and that far more material and moral support was called for than had been received there.

In both my first and subsequent visits to that area, I stated that ECA wanted to give it the greatest support possible; and I emphasized publicly how important it was that the Nationalist Government render greater assistance to North China, both economic and military. Ambassador Stuart fully supported my position.

Probably the most important part of our Mission's program was the Food Ration Plan (initiated by the China Relief Mission in the spring) in Peiping, Tientsin, Nanking, Shanghai, Canton, Swatow, and extended later to Tsingtao. With the cooperation of the municipal authorities, every resident of these cities received a ration card entitling him to a certain amount of food per month, at a stated price. Also free food to refugees was supplied in limited amounts, especially in Tsingtao.

One of the most annoying problems in dealing with the Nationalist Government through CUSA (China's ECA counterpart) was to fix the prices at which rationed food was sold as well as to secure the local food supplies promised by CUSA to supplement the food imported by ECA.

Due to incredible currency inflation and the fact that rationed food prices were at first fixed but once a month, the public received this rationed food at far below the open market price. The unwillingness of our CUSA associates to agree on rationed prices close to open

market prices was always a bone of contention. This unwillingness to accept realistic prices arose largely from fear of political repercussions—"Please keep food prices low. We might precipitate civil riots if they were marked up to keep pace with currency inflation." We had good reason to blast publicly the Nationalist Government for its failure to agree on food prices sufficiently high—an essential means of checking currency inflation—but we felt compelled to temporize and compromise, fearing on broad grounds that public criticism of the Government would only weaken support of its efforts to down the Communists.

The failure of the Nationalist Government to supply its agreed share of rationed food was largely inexcusable, due to the incompetency and lethargy of those charged with food procurement. At least 50% of the food necessary to ration the larger cities was supposed to have been supplied by CUSA from local food surplus areas—this to supplement the food imported by ECA. In practice, ECA was compelled to furnish much more of the total ration stocks than was originally contemplated. We experienced less difficulty in establishing prices and end use disposal with our cotton, petroleum, and fertilizer programs, although we had many annoying setbacks due to the unwillingness of our CUSA associates to accept their share of responsibility.

Chinese currency inflation caused endless complications. When our Mission first arrived in China US\$1 could buy 1,400,000 Chinese dollars. Some two months later, a US\$1 could buy almost 12,000,000 Chinese dollars. It is almost impossible to describe how difficult it is to live from day to day under such conditions. Our alien personnel were paid with Chinese counterpart funds, as were the living expenses of our American personnel. Unless the money received was spent almost immediately, it became worth but a fraction of its value within a few days. When by agreement with CUSA, counterpart funds were voted for certain projects (mentioned later), by the time money was actually secured and spent, double, triple, and maybe ten times the amount of counterpart currency was required to complete the job. The problems arising from currency inflation were a constant pain in the neck.

Meanwhile about 70% of the Nationalist Government income was spent to maintain its military forces. The Government did very little, if anything, to secure additional revenue through increased taxation or by cutting down its budget. In a radio talk I made in Nanking on July 22, I pointed this out and said:

"It stands to reason that if China expects our Congress to vote additional American aid next year, then China must do more on its own initiative to help itself than has been evident to date. China has an

inflation problem—and that is putting it mildly—but it is my impression that China is not collecting the revenues it might if the public was required to pay the prices it should for commodities and services that depend on foreign exchange.

“There is the belief, confirmed by many sources, that the Chinese farmers in effect subsidize the big cities—that there are many in the cities who could afford to pay more than they do in meeting their country’s expenditures.

“If you can fly from Shanghai to Nanking for the equivalent of an American dollar or two, it stands to reason that air travelers could and should pay a great deal more for air transportation when such transportation depends on foreign exchange to cover much of its operating costs. In the United States such a trip would cost *at least* five times as much.

“There is no reason why there should not be some restrictions on the use of gasoline for pleasure travel. Gasoline has to be paid for with foreign exchange. Why not a realistic gasoline price as well as restrictions on pleasure driving such as apply in European countries? There are many other things which could be done to help meet China’s budget deficit. Why not a strong self-help program to find and enforce them?”

Speaking of the inflation problems, I should mention here the various projects initiated by the China Relief Mission, many of which were left to ECA to complete after it took over from CRM on June 30. These projects, ranging from construction of dikes to reclaim farmlands and development of irrigation projects to assistance for medical centers and hospitals and aid of a welfare or relief character, were financed by Chinese counterpart funds. Many applications for assistance were filed with and considered jointly by ECA and CUSA. By joint approval, certain funds were allocated to such projects as were deemed worthy. Due to the rapid deterioration of the Chinese currency, supplemental funds had to be approved from time to time to finish approved projects. As can be imagined, the difficulties encountered in completing these projects were innumerable.

Mention should be made of the work involved in the distribution of medical supplies. Some US\$5 million of China Relief Mission funds had been used to purchase medical supplies in the United States. These supplies did not arrive in China until after the CRM had discontinued its operations and the burden of sorting these supplies and distributing them to various areas in China had to be undertaken by our Mission. Distribution costs were financed by our counterpart funds.

The China Aid Act of 1948, Section 407(a) called for the establishment of a Joint Commission on Rural Reconstruction in China, composed of two Americans appointed by the President of the United States and three Chinese appointed by the President of China. It provided that the Commission should, subject to the direction and control

of the Administrator, formulate and carry out a program for reconstruction in the rural areas of China, including such research and training activities as might be necessary or appropriate for such reconstruction purposes. This Commission held its first organization meeting in Nanking on October 1.

Due to threats of Communist occupation of Nanking, the Commission was compelled to move its headquarters to Canton on December 5; it has since been operating from that base. Should Canton fall under Communist control in the near future, the Commission plans to move its headquarters to somewhere in the province of Szechuan and to conduct its operations from there as long as possible. Meanwhile, the Commission is establishing a subsidiary base in Taiwan and planning a program for that Island in the near future. Mr. Chiang Mon-lin, Chairman; Mr. T. H. Shen and Mr. Y. T. "Jimmy" Yen (well known for his leadership in the Mass Education Movement) are the Chinese members of the Commission. Mr. Raymond T. Moyer and Mr. John Earl Baker are the American members.

During the short time it has functioned, the Commission has initiated and financed in various rural areas such projects as building dikes to control floods, thus reclaiming lost farmlands; by building and repairing irrigation systems to make more land available on which to grow food; and by programs for seed multiplication and distribution, for fertilizer and pesticide distribution, for cattle rinderpest control and for anti-malaria campaigns. It has supplied funds for a Mass Education Movement, giving thousands of Chinese an opportunity to learn to read and write their own language.

The cost of these projects to date has been largely financed by counterpart funds with all the accompanying troubles due to currency deterioration. To date, only about US\$600,000 has been spent to finance the Commission's work; but from now on, with little counterpart funds available, more U.S. dollars will have to be used.

This type of aid to the Chinese people is well worthwhile and costs relatively little. The Commission has done a very creditable task under most trying circumstances. The five members are working as a team with one objective—to better the living standards of the great mass of Chinese who live in the rural areas.

On August 19, the Nationalist Government initiated its so-called currency reform, issuing new Gold Yuan currency and fixing the rate of GY4 to US\$1; at the same time prices and wages were frozen by decree. Of course, an across-the-board price freeze is always unworkable except as a momentary arrangement. Maladjustments between costs and prices and changing conditions in markets make it impossible for such decrees to lead to anything but widespread violation and the

stifling of production and distribution. Enforcement of these decrees varied in different sections of the country. In Shanghai where enforcement was strict and accompanied by the death penalty, the final result was cessation of trading between the city and the surrounding country. Refusal of farmers to ship their locally grown rice to Shanghai brought about serious food shortages in early November. It was about this time the Americans had been warned by our Embassy and Consular authorities to leave the Shanghai area. The situation was tense but fortunately the danger of food riots was averted by the immediate shipment of rice from Hongkong pending delayed arrival of ECA rice ordered from Burma, the Governor of Hongkong having graciously responded to our request for a loan of rice, afterwards repaid.

When the new currency was established, the Generalissimo called upon everyone to turn in their gold, silver, and foreign exchange for the new GY notes. An appeal was made to the people on patriotic grounds but penalties were fixed for failure to comply; and simultaneously the Nationalist Government promised that every effort would be made to balance the national budget or at least to reduce the budget deficit. The response was encouraging. Many loyal Chinese turned in their bullion and foreign exchange; but no real attempt was ever made by the government to carry out its promises. No new taxes were imposed and nothing was done to cut down the government's overhead.

Meanwhile the Communist military forces became increasingly and successfully active. The important Shantung city of Tsinan fell to the Communists in late September. Mukden collapsed a month or so later, with the Nationalist army offering no real resistance, surrendering en masse, and turning over a great store of arms and ammunition.

Following Mukden's surrender, the threat of further Communist advances north of Nanking as well as along the Peiping-Tientsin corridor precipitated fear and unrest. Warnings from our own Consular authorities for Americans to evacuate Communist-threatened areas accentuated the growing tension. About the same time, the Nationalist Government lifted its restrictions on wage and price controls as well as on currency. Trading was resumed between the cities and the countryside; but the GY exchange rate declined rapidly. By December 1, 1948, US\$1 could buy GY40; by February 1949, it could buy GY2,000; and by the middle of April, US\$1 could buy GY12,000. From then on, the spiralling rate became astronomical. Many patriotic Chinese who had turned in their gold, silver, and foreign exchange for Gold Yuan suffered a total loss; and, to put it mildly, confidence in the government was shaken to the limit. Under such circumstances, the difficulties our Mission faced with its payrolls, its Chinese counterpart funds, as well as differing exchange rates in the various cities in which it operated, may be readily imagined.

Tientsin was occupied by the Communists about the middle of January. On hand there at that time were ECA food, cotton, yarn, and medical supplies valued at about US\$4,500,000. Our Tientsin office had orders to continue to distribute these supplies in the usual way provided the Communists would allow it to do so without interference and with freedom of movement to its staff; but the supplies were seized on the ground that they had been the property of the Nationalist Government.

I should mention here the trying situation faced by Mr. Ritchie Davis, Director for North China, and his staff at Peiping, as well as by Regional Director James Ivy and his staff at Tientsin, when these two cities were occupied by the Communists. All concerned stuck by their guns, and did the best that could be asked for under trying conditions. Tientsin came under shell fire; and there was plenty of tension in both cities. We were all relieved when, after two months, nothing remained for the staffs to do and the Communists permitted them to leave. All arrived in Shanghai, reporting for further duty.

The Nationalist armies suffered decisive defeats on the fronts north of Nanking in early December. It appeared then that, if the Communists really wanted to push forward, Nanking could be occupied in ten days or two weeks. Meanwhile the military situation along the Peiping-Tientsin corridor grew rapidly worse for the Nationalists. There were rumors that the Generalissimo should step out as President, and turn over his office to the Vice President. Nationalist reverses both on the military and economic fronts developed sentiment for a change in leadership. In late December and early January, the Communist military advance north of Nanking slowed down, although the Communist pressure on the Peiping-Tientsin corridor became greater than ever. And there were increasing signs of dissatisfaction with the Generalissimo and an ever-growing feeling that the Nationalists should make an effort to conclude some kind of peace with the Communists.

Finally, on January 21, 1949, word came that Chiang Kai-shek had left Nanking to retire to Chekiang, and had turned the Government over to the Vice President, Li Tsung-Jen. On January 25, I conferred with the latter in Nanking, with Ambassador Stuart interpreting. The Vice President considered the Nationalist military situation hopeless north of the Yangtze and believed that efforts should be made to contact the Communists, to ascertain what kind of peace might be effected. General Fu Tso-yi,⁴⁴ following the departure of the Generalissimo, had had to negotiate a peace on his own; and Peiping was occupied by agreement a few weeks later.

⁴⁴ Then Commander in Chief of Bandit Suppression Forces in North China.

Meanwhile the exodus of the Nationalists to Taiwan was beginning. Shortly before his retirement, the Generalissimo had appointed a new Governor for Taiwan, General Chen Cheng, Chiang's former Chief of Staff. I spent three days on that island, February 3-6, then conferred with Ambassador Stuart and Vice Admiral Badger at Tsingtao on February 7. I flew down to Canton on February 9, to attend a CUSA meeting presided over by Prime Minister Sun Fo; returned to Shanghai; and departed for Washington on February 16.

You will recall my visit to Washington in late February and March when the Congress was considering further economic aid to China. The China Aid Act was amended extending the time ECA should spend the \$275 million originally appropriated, from April 3, 1949 to February 15, 1950. It was estimated then that we would have left to spend about \$54 million. However, prior to April 3, commitments had been made to take care of commodity programs, food, cotton, and petroleum products sufficient to secure their continuance for some three months.

I should mention at this point that when you were in China last December, we discussed what should be done about the \$70 million Replacement and Reconstruction Program, recommended by Mr. Charles Stillman and the consultant group working under him. This group of well chosen experts had spent three or four months in various parts of China, making an extensive survey of railroads, power plants, fertilizer plants, sugar mills, etc., calling for capital funds to be spent over a period of years. They had submitted exhaustive reports accompanied by specific recommendations for various projects in various areas. Some pre-project engineering costs of a minor nature had been incurred but no decisions yet made on final commitments. You asked whether or not, if these were our own moneys, we would commit them, knowing it would take several years to complete many of the projects. My answer was, because of all the uncertainties, military and political, fearing that areas held by the Nationalists might soon fall to the Communists, I would not now risk any capital funds. You very properly said, "Then we should not spend American taxpayers' money where we would not be willing to spend our own." As a result, except for the completion of pre-project engineering, none of the \$70 million tentatively allocated for replacement and reconstruction has been spent. Unfortunately, the thorough job undertaken and completed by Mr. Stillman's group can now be classed as "Love's labor lost".

I returned to Shanghai on April 21, and learned that British war vessels in the Yangtze River had been shelled by the Communists, the day before. I flew to Nanking at once, conferred with Ambassador Stuart, and returned to Shanghai a few hours before the Nationalist forces abandoned their capital. After consulting with Vice Admiral

Badger, we decided to transfer Mission headquarters immediately to Canton, leaving only a small regional staff in Shanghai. With the Navy's cooperation, the move south was accomplished within a week.

I have already paid tribute to Colonel Griffin and to the efficiency and loyalty of the Mission's staff; but particular mention is due to the extraordinary task accomplished at both ends when our headquarters were transferred. On forty-eight hours' notice, not only was the staff and office equipment loaded at Shanghai but at Canton, Regional Director H. T. Sampson and his staff unearthed housing and office space—an almost incredible achievement due to the already frightfully crowded conditions existing in Canton.

On May 11, I paid another visit to Taiwan; and flew into Shanghai the next day for a few hours' conference with our Regional Director, Mr. George St. Louis, and others, flying back to Canton the same night. On May 15, accompanied by Mr. Moyer and Mr. Shen of the Rural Reconstruction Commission, as well as several members of their staff, Colonel Griffin and I flew to Szechuan Province to familiarize ourselves with some work the Rural Reconstruction Commission was doing or proposed to do in that province. We returned five days later. I left Canton on May 24, spending a night in Hongkong, proceeding thence to Tokyo where I spent three days discussing China matters with some members of SCAP's⁴⁵ staff. I reached San Francisco May 29 and flew to Washington to confer with you for a few days.

Meanwhile on May 25, the victorious Communists took over Shanghai, the Nationalists having offered very little resistance and having evacuated most of their troops by water. Although ECA had been trying to maintain a 30-day food supply in Shanghai for rationing purposes, very little of our food stocks were left in Shanghai when the Communists entered. However, we did have substantial stocks of raw cotton, not only in the godowns but being processed in the mills. While many raw cotton shipments had been diverted to Japan prior to Shanghai's downfall, we had felt it essential to keep the textile mills going as long as possible. This is the most important industry in the city and employs upwards of 250,000 people. We had in Shanghai also about two weeks' supply of petroleum products. The total value of all stocks now in Shanghai is approximately US\$13,000,000. Prior to the Communists' entry, our regional office, in charge of Mr. George St. Louis, was staffed with only four Americans. To date, the Communists have not attempted to take possession of any stocks to which we still hold title and present indications are that we perhaps may be permitted to distribute those commodities in the

⁴⁵ Supreme Commander, Allied Powers in Japan.

usual way. To date, the Communists have maintained law and order within the city as well as could be expected.

Within the next few weeks our American staff in China, including four temporarily assigned to Japan who will arrange for the disposal of diverted cotton cargoes, will not exceed twenty. We plan to maintain customary food distribution for rationing purposes in Canton and Swatow as long as those cities remain in Nationalist hands. And I am sure Mr. Norman Meiklejohn, now left in charge of the Mission to China, will handle well the liquidating task assigned to him.

In a separate letter I am reporting on the situation in Taiwan⁴⁶ where presently we are maintaining a staff of five Americans headed by Regional Director Lorin Craig.

Some four months ago, after receipt of numerous inquiries and an official request from the Chinese Government for a \$500,000 allocation to aid Chinese students studying in the United States, we undertook in consultation with the Department of State to see what might be done under authority granted by the Congress to ECA. Many of those students because of Civil War and inflation had been deprived of financial support from their homeland; if they were to complete their studies, they needed aid from some outside source.

As a result, you authorized an emergency allocation of \$500,000 from our appropriated funds to the State Department to be used as a working fund from which grants would be made to Chinese students engaged in certain scientific and technical studies in this country. To date, the total funds expended or earmarked amount to about \$460,000, and some 500 students have so far been assisted.

I have referred previously to our Mission as a successful failure. On second thought, that is a misnomer for what we have really been doing is fighting a rear guard action against tough odds. I do not feel that the funds spent and the efforts made have been wasted. On the material side, people have been fed, employment has been continued in the textile mills, rioting and civil disturbances have been averted more than once. Listing the intangibles is more difficult. Each person has his own ideas of what they are; but I would like to name mine:

First—I would place the real friendship of many high-class and truly patriotic Chinese, and

Second—I would name the respect that grew slowly with every individual and group with whom the Mission organization came in contact, for the honesty of purpose and complete integrity of the organization.

Personally I feel it has been not only a rare experience but a privilege to have served as Chief of the ECA China Mission. One thing the year has taught me—you cannot afford to hold to fixed ideas. You must keep

⁴⁶ Not found in Department of State files.

fluid, face things as they are and not as you would like to have them.
Sincerely,

ROGER D. LAPHAM

893.50 Recovery/6-2049

*Mr. Livingston T. Merchant*⁴⁷ to Mr. Harlan Cleveland, of the
Economic Cooperation Administration

WASHINGTON, July 1, 1949.

MY DEAR MR. CLEVELAND: The receipt is acknowledged of your letter of June 20, 1949, to Mr. W. Walton Butterworth, Director for Far Eastern Affairs, in regard to the areas in China in which activities are being carried out by the Joint Commission on Rural Reconstruction in China, and the possibility that these areas might fall under Communist control.

The Department has no information which would indicate any marked degree of Communist activity in the provinces of Szechwan, Kwangsi, Ninghsia, Kansu or the island of Taiwan, nor has there been activity by Communist regulars in Kwangtung. However, in this last named province there has been considerable activity by units generally considered to be Communist guerrillas.

The following numbered paragraphs indicate briefly the status of various areas as revealed by information at present available to the Department, the numbering conforming to that of your letter in referring to the areas in question.

1. It would appear that the decision to withdraw support from the projects in the six hsien around Lungyen is justified in view of Communist military activity in that area.

2. Officers in this division have been informed by officers working in the Division of China Program, ECA, that the 7th Prefecture of Fukien includes certain areas in southwest Fukien around Lungyen. As indicated in the preceding paragraph the Communists have been operating in that vicinity.

3. Areas around Lingsen, Putien, and Chinkingiang (Chingkiang) are apparently clear of Communist activities. We were unable to identify Lyngyen; this might be a reference to Lungyen, where, as indicated above, there has recently been Communist activity.

4. The area around Foochow is at present free of Communist activities.

5. Hunan is comparatively untroubled by Communist military operations except for the extreme northeast portion.

6. The Lin Lake area is at present free of Communist operations.

7. The area around the northwest corner of Tung Ting Lake is likewise free of Communist activity, although the northeastern portion has for some time been threatened.

⁴⁷ Counselor of Embassy in China who had been called to the Department for consultation.

I trust that this provides you with the information which you desire at this time.⁴⁸

Sincerely yours,

LIVINGSTON T. MERCHANT
*Special Assistant to the Chief
Division of Chinese Affairs*

893.50 Recovery/7-549 : Telegram

The Consul at Tsingtao (Hawthorne) to the Secretary of State

TSINGTAO, July 5, 1949—2 p. m.

[Received 2:04 p. m.]

312. Director CUSA reports remaining ECA assets confiscated by Commies. These include all cotton yarn due ECA from CTII⁴⁹ and Hwahsing cotton mill, small stock flour and about 500 tons wheat, gunny bags and flour sacks and 14,000 Chinese silver dollars CUSA had on hand for operating expenses.

Sent Department 312, repeated AmEmbOff Canton.

HAWTHORNE

893.50 Recovery/11-2549 : Telegram

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

SHANGHAI, November 25, 1949—4 p. m.

[Received November 25—9:44 a. m.]

4933. Re last sentence paragraph 3, Ecato 1496, November 21.⁵⁰ ConGen recommends that ECA immediately suspend negotiations along lines described paragraph 2 (a) as prejudicial to entire ECA disposal program in which St. Louis had made significant progress in recent weeks.

ConGen observes Wu Yang's offer predicated on approval by local Shanghai authorities. In ConGen's view, which St. Louis shares, inconceivable that Shanghai authorities or highest Commie authorities Peiping would agree, as must assume Commie authorities will decide ECA disposal issue Shanghai exclusively in terms their own self in-

⁴⁸ Letters dated July 27, August 23, September 20, October 19, November 8, and November 18 were sent by the Department to the ECA as notifications that specific areas of China had been taken by Chinese Communist armed forces.

⁴⁹ China Textile Industries, Inc.

⁵⁰ Not printed; it requested comments on whether ECA's cotton disposal plans might endanger ECA personnel or residual assets. Paragraph 2 (a) indicated that ECA was contemplating cash sale of its Shanghai cotton to the Wu Yang Trading Corporation, Hong Kong branch, Volkart Bros. of New York to act as seller. (893.50 Recovery/11-1749)

terest which WuYang obviously would not serve, inasmuch as it would deprive Commie regime of the proceeds of ECA cotton (urgently needed for relief purposes) and would cause an unnecessary loss of scarce foreign exchange.

ConGen feels it imperative at this time avoid giving Commies slightest pretext for charging duplicity in handling of this matter. See Toeca 2195,⁵¹ paragraph 5 restated Toeca 2296 [2196]⁵² paragraph 5, and Toeca 2233, Nov. 22.⁵³ Believed that slightest intimation to Shanghai authorities that ECA seriously considering Wu Yang's offer while overall settlement under negotiation would be interpreted by Shanghai and Peiping Commies as prima facie evidence of "bad faith" which would jeopardize not merely status of SRO and its disposal program, but would likewise lead to further general deterioration of relations with Commie regime. This problem has been discussed with Von der Crone, Volkart agent, who concurs fully and is unwilling accept personal risks to which he would be exposed by participation as middlemen between ECA, WuYang and Commie authorities. Position Von der Crone on Shanghai Board Trustees, Allocation Comite, further complication.

ConGen believes implications of Wu Yang offer would appear to Commie authorities as follows:

1. ECA seeking to obtain indirectly from North China Foreign Trade Bureau payment of about US \$3.7 million for raw cotton in order to avoid delivery to Shanghai Board Trustees which under SRO disposal program would receive and disburse JMP proceeds for benefit Chinese people. This connection, both Peiping and Shanghai authorities fully appreciate that original SRO disposal plan included ECA raw cotton Shanghai. However, reasonable to suppose North China Foreign Trade Bureau unfamiliar with SRO disposal plans. When deal came to light, would be interpreted as US attempt to "play on Commie ignorance".

2. Offer further presupposes Shanghai authorities would willingly permit ECA raw cotton Shanghai to be shipped to North China where larger domestic supplies are available than Shanghai, and from which area Shanghai mills desperately attempting procure raw cotton.

Shanghai still under jurisdiction SMCC⁵⁴ which evidently still enjoys large degree autonomy. It is equal from administrative standpoint of North China military control CCOMM [*commission*], at least for purposes transactions this nature. Reasonable assumption Shanghai Commies would immediately report any developments such as Wu Yang offer to Peiping in light most unfavorable to ECA.

⁵¹ October 5, not printed; paragraph 5 suggested the desirability of obtaining from the buyer substantial assurances that Communists approved the proposed purchase lest it increase their hostility to the ECA and complicate relations with the Consulate General and the American community in Shanghai.

⁵² Copy not found in Department of State files.

⁵³ Not printed.

⁵⁴ Shanghai Military Control Commission (Communist).

Comment authorities Shanghai now pressing SRO for detailed specific information re exact amounts location ECA raw cotton, cotton cloth, yarn (which in any case they can obtain from JMB). Note also date December 1 set as time-limit for consummation Wu Yang offer.

Any tentative agreement made with Wu Yang would in all likelihood be promptly repudiated along with remainder ECA disposal program when full facts came to attention highest Commie levels with consequences prejudicial to larger interests US Government. ConGen's recommendation influenced by strong hopes for early consummation SRO disposal program along lines originally presented if we do not depart from announced basis.

Finally, there remains possibility that Wu Yang offer may be deliberately designed by Shanghai Commies to trick ECA into action which could be exploited by Commies as basis for propaganda exposure of American duplicity and justification of Commie seizure of all stocks without payment.

In view above, ConGen trusts Wu Yang offer will be dropped immediately to avoid any inkling this offer reaching ears SMCC at present delicate stage.

This telegram has been shown to St. Louis, although not drafted at his instance. Neither he nor ConGen critical of ECA Washington which we realize is animated by praiseworthy motive of salvaging as much as possible for benefit our taxpayers. However, highly commendable job was done by ECA last spring in diverting aid, evacuating all possible ECA commodities prior Commie take-over. We believe we must abandon all idea of recovering for US Treasury anything from relatively small balance raw cotton remaining here which has become important pawn in accomplishing successful liquidation ECA effort here with benefit to worthy Chinese charities, without accrual any direct political or military benefit to Commie regime.

Taipei please pass Nason, ECA, urgently, now either Taiwan or due shortly.

Hong Kong please pass Meiklejohn, ECA. Sent Department 4933, repeated Taipei 511, Hong Kong 491.

McCONAUGHY

893.50 Recovery/11-2849: Telegram

The Acting ECA Administrator (Bissell) to the Consul General at Shanghai (McConaughy)

WASHINGTON, November 30, 1949—8 p. m.

Ecato 1500. [Re] Toeca 2236, sent Taipei (ShaTai 45, rptd Hong Kong Shaeca 451). You are authorized include all raw cotton stocks

in overall disposal plans under Allocations Committee of Board Trustees. Are taking necessary action with principals here. Repeated Hong Kong for Nason as Ecato 281 and Taipei as Ecato 211.⁵⁵

BISSELL

III. URGENT REQUESTS BY THE CHINESE GOVERNMENT FOR A PROGRAM OF BROAD ECONOMIC ASSISTANCE⁵⁶

893.50 Recovery/3-3149

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, March 31, 1949.

DEAR MR. SECRETARY OF STATE: Referring to my conversation with Under-Secretary of State James E. Webb on March 3, 1949,⁵⁷ and pursuant to the instructions of my Government, I have the honor to present for consideration and action by the United States Government a Memorandum on the Continuation of United States Aid to China with observations on interim aid for the period from April 3 to June 30, 1949 and a Proposed Aid Program for July 1949 through June 1950.⁵⁸ These two documents have been prepared in the light of the existing conditions in China and with due regard to the need of flexibility and adjustment which may arise from new developments.

One of the serious difficulties confronting the Chinese economy is the continued depreciation of the *gold yuan*. In order to cope with this pressing problem which, among other things, is also undermining the stability of the Chinese economic system, the initiation of a sound currency program by stages appears indispensable. It is the hope of my Government to be able to propose in due course a program for consideration and discussion with a view to seeking the co-operation and assistance from the Government of the United States.⁵⁹

I am [etc.]

V. K. WELLINGTON KOO

⁵⁵ In telegram No. 2359, December 2, 5 p. m., the Department informed the Consul General at Shanghai that telegram Ecato 1500 had been sent with its concurrence (893.50 Recovery/11-2549).

⁵⁶ For correspondence regarding the mission to the United States of the Personal Representative of the Acting President of China to obtain moral support, financial assistance, and military aid and advice, see pp. 699 ff.; for correspondence regarding Chinese requests for assistance in connection with currency stabilization and other fiscal matters, see pp. 729 ff., *passim*.

⁵⁷ No memorandum of this conversation found in Department of State files.

⁵⁸ Latter enclosure not printed.

⁵⁹ Robert N. Magill, of the Division of Chinese Affairs, noted that "No reply was made to Ambassador Koo's letter in view of fact that extension of authority of China Aid Act was already being considered by Congress." Act approved April 3, 1948; 62 Stat. 158. For correspondence on its renewal, see pp. 599 ff.

[Enclosure]

The Chinese Embassy to the Department of State

MEMORANDUM ON CONTINUATION OF UNITED STATES AID TO CHINA

The China Aid Act of 1948 authorized \$338,000,000 for economic assistance to China, to be available for obligation from April 3, 1948 through April 2, 1949. However, Public Law 793⁶⁰ appropriated only \$275,000,000 for economic aid, which sum constitutes the current ECA⁶¹ China Aid Program.

The funds expended during the last twelve months of the China Aid Program have been instrumental in providing a large portion of the rice and flour requirements for 13 million inhabitants of seven major cities, the necessary raw cotton for four million spindles, virtually all the petroleum products for civilian consumption and most of the chemical fertilizers for increasing agricultural production. While the Aid Program was necessarily limited in scope and purpose, it helped maintain employment and normal channels of trade and mitigate economic distress of the people, morally to an extent considerably in excess of the physical benefits of the aid given.

Due to the suspension of reconstruction and replacement projects in December, 1948 and the comparatively slower implementation of the program during the first few months of its operation, when necessary organization and procedures had to be set up, a balance of funds is expected to remain unobligated by April 3, 1949. In view of the limited foreign exchange resources of the Chinese Government, the continuation of the Aid Program is urgently needed to forestall the critical dangers involved in a stoppage of the flow of essential supplies and services. To achieve this objective in the interim period pending consideration of the accompanying proposal for United States Aid for July, 1949 through June, 1950, it is necessary that action should be taken immediately to extend the expiration date for obligation of (a) the balance of unobligated funds appropriated by Public Law 793 and (b) the balance of funds authorized by the China Aid Act of 1948.

The extension of unobligated funds already appropriated will provide immediate resources to carry on the Aid Program uninterrupted for at least two months; the extension of the expiration date for China aid funds already authorized but not yet appropriated and the completion of Congressional action towards making such necessary appropriations will, firstly, provide further

⁶⁰ Approved June 28, 1948; 62 Stat. 1054.

⁶¹ Economic Cooperation Administration.

funds for the maintenance of an adequate economic aid program during the Stop-Gap period and, secondly, provide funds for the continuation of the program beyond the Stop-Gap period if authorization procedure for the proposed twelve-months aid program should not have been completed in time.

The Stop-Gap Program is based on actual requirements and at approximately the same rate of expenditure during the past months when the China Aid Program was in full operation. The details of a Stop-Gap Program, originally designed for the period from April 3, 1949 through the end of June, 1949, were discussed in various informal exchanges of views on the technical level between representatives of ECA and the Council of United States Aid in China.⁶² It had been the intention of the Chinese Government to propose a program in Washington for this Stop-Gap period. In view of the fact that ECA has already presented its proposed program for an interim period after April 2, 1949,⁶³ the Chinese Government wishes to present instead the following observations and suggestions for consideration and incorporation in the said ECA program :

(1) Due to the importance of the textile industry in the Chinese economy and the urgent need for increased importation of cotton to meet the shortage in supply created by the reduced availability of domestic cotton, it is believed that greater emphasis should be placed on cotton than contemplated in the interim program proposed by ECA. According to recent estimates, a minimum of 314,000 bales or \$50,000,000 are needed for the aid program for April through June, 1949.

(2) Amoy and Foochow should be included in the food rationing system and a substantial percentage of the requirements of these two cities should be provided for in the proposed ECA Aid Program for April through June, which is a period of seasonal shortage of indigenous supply.

(3) \$4 million should be used to lift approximately 35,000 tons of ammonium sulphate and ammonium phosphate, which will be distributed in South China and Taiwan. It is estimated that this tonnage will increase rice production in substantial quantities, which if calculated in terms of U.S. dollars would mean considerable savings in foreign exchange.

(4) During the past year of ECA aid operations, preliminary allocations were made jointly by ECA and Chinese representatives for certain industrial replacement and reconstruction projects. Some pre-project engineering surveys were completed by qualified engineering firms, but actual procurement and installation of equipment were temporarily suspended in December, 1948. In order to avoid further delay in developing the industrial potentialities of accessible areas in South China and Taiwan, the Chinese Government proposes that implementation of selected replacement and reconstruction projects in

⁶² CUSA.

⁶³ See undated ECA memorandum, p. 606.

such areas be initiated as soon as possible. It is believed that such implementation will help forestall the serious depreciation of existing railways, mines, power plants and other industrial establishments in accessible areas and to improve or expand these facilities wherever feasible.

(5) The foregoing observations and suggestions relate specifically to items on which the ECA proposed program may be supplemented but of course they are not intended to reflect in any way on the appropriateness of the other parts of the proposed program.

It will be seen, however, that additional emphasis on cotton, food, fertilizer, replacement and reconstruction project requirements would necessitate larger expenditures than detailed in the ECA proposal. These requirements form in part the basis of our request for extension of the date of obligation for all funds authorized under the China Aid Act of 1948.

Before outlining the proposed Aid Program for a twelve-month period, which is designed to follow the Stop-Gap Program, it is necessary to emphasize several basic considerations on which both the Stop-Gap Program and the twelve-months Program are predicated:

(A) In view of the urgent nature of the economic problems facing China in an environment of unsettled conditions, it is highly desirable for action to be taken by the United States to authorize a continuation of American Aid. Aside from the direct beneficial results flowing from implementation of further aid, the early enactment of enabling legislation for continued aid by the United States would in itself produce a salutary effect on the morale of the people and the course of events in China.

(B) In recognition of the exceedingly great demands upon the United States economy, the proposed programs for continued aid to China have been pared to a minimum, amounting to about 1% of the current annual national budget of the United States and less than 1/10th of ERP⁶⁴ requirements for the coming fiscal year. The programs proposed herewith envisage continuation of ECA aid on substantially the present scale in accessible areas with conditions generally remaining unchanged from the present time. The possible need of flexibility and adjustment in the present unsettled conditions has been given due consideration. It appears that the existing instruments of control available to ECA in the issuance, suspension or cancellation of Procurement Authorizations and Letters of Commitment, in control of schedules of contracting, delivery and installation, and in the power of diversion or curtailment of shipments should provide adequate safeguards against any aid being diverted for areas or purposes not within the intent of the enabling legislation.

(C) One other basic consideration has also inspired the request for continued aid. In their desire to promote trade relations with the United States, the Chinese Government and people have been pleased to observe the stimulating effect of the China Aid Program upon trade

⁶⁴ European Recovery Program.

between the two countries. Every bale of cotton financed by ECA under the China Aid Program was shipped by a United States exporter. Scores of United States cotton exporters were included in the Program. The petroleum program, from shipment to distribution, was largely handled by two major American oil companies. In a year of agricultural surpluses in the United States, all the wheat and flour shipped to China under the ECA Program, of which a large portion was in the form of flour processed in American mills, was from the United States. United States rice was also included in the aid program. The entire 1948-1949 IEFC⁶⁵ allocation of United States fertilizer for China was lifted through ECA. Except for some Chinese ships carrying rice from Siam and Burma to China, practically all the above-mentioned ECA commodities were shipped in United States vessels. United States banking institutions played a large part in financing the transactions connected with procurement and shipment of commodities to China. While procurement and installation under reconstruction and replacement projects have been suspended, most of the pre-project engineering have been undertaken by well-known United States engineering firms, including J. G. White Engineering Corporation which serves as the technical consultant to the Joint ECA-CUSA Committee for Reconstruction and Rehabilitation. Technical personnel and consulting firms from the United States have also assisted in the Rural Reconstruction Program.

Thus a substantial volume of trade from the United States to China during the past year was maintained through the Aid Program at a time when the limited exchange resources of the Central Bank of China would have meant curtailment of normal imports to China. It is believed that continued aid, in addition to its beneficial effect upon the Chinese economy, will further promote the development of trade between China and the United States.

The detailed proposal for an aid program for the period from July, 1949 through June, 1950 is submitted herewith.⁶⁶

893.00/4-2949 : Telegram

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

CANTON, April 29, 1949—7 p. m.
[Received April 30—4:43 a. m.]

Cantel 302. After more than hour with Prime Minister Ho Ying-chin, the question still remains unresolved as to whether the chicken was going to come before the egg, he insisting that further effective resistance to Communist advance was impossible without American aid

⁶⁵ International Emergency Food Council.

⁶⁶ Not printed; it suggested an aid program of \$420,000,000 for this period, \$320,000,000 for commodities and the remainder for replacement and reconstruction.

and I maintaining it to be inconceivable that Congress would vote more American aid unless there was successful resistance to Communist[s] with victories and economic reforms indicating possibility effective alternative to Communist-dominated China. He was obviously very despondent and gave an impression of helplessness coupled with hopelessness. Finally, upon his insistence I agreed send following message my government:

Chinese Government is determined continue resisting Communism with all its resources, even resorting to guerrilla warfare if necessary. Unless American aid is forthcoming, immediate result will in end be disastrous to cause of democracy and to the interests of the US. Prime Minister hopes therefore that American Government can see its way clear to support National Government with further aid without delay.

Sent Department, repeated Nanking 237, Shanghai 190.

CLARK

893.51/8-1149: Telegram

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

CANTON, August 11, 1949.

[Received August 14—5:29 a. m.]

Cantel 924. Ho Ying-chin⁶⁷ asked me to call and spent more than hour pleading for another chance, saying without loan from US this stage Nationalist resistance [to] Communists was bound to collapse. Errors of past were admitted, but this time reform really would be instituted. We could name our own prime minister, our own commander in chief of armed forces and take any other measures we deemed necessary assure loan used effectively combat Communism. He understood White Paper⁶⁸ ruled out further aid China so long as Gimo⁶⁹ participating Government and promised if further aid forthcoming that "they" would "try" persuade Gimo cease interference. Obviously if Gimo is obstacle further aid, Ho and his aides are willing try throw him overboard. Although Ho thinks prime problem at moment is economic, he says Nationalists still have 3,000,000 under arms and 1,500,000 effective [combatants capable] moving [turning] tide military events if properly led. He admits Gimo has lost confidence troops and says that if American aid is forthcoming even on install-

⁶⁷ President of the Chinese Executive Yuan, March-May 1949, and Minister of National Defense, June-December 1948.

⁶⁸ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949). For correspondence regarding this publication, see pp. 1365 ff.

⁶⁹ Generalissimo Chiang Kai-shek, who retired as President of the Republic of China on January 21 in favor of Vice President Li Tsung-jen as Acting President.

ment basis permitting US to stop it whenever government failed produce, he, Ho, would sacrifice himself and assume command of army if we desired. Of course if American aid is not forthcoming, he is unwilling sacrifice himself and command army. My visit with Ho Ying-chin was most depressing. It is, to me, further indication of complete bankruptcy present China leadership. There is no thought of dying for a cause, only tendency blame US for not doing for China what Chinese cannot do for themselves. There was in Ho complete inability comprehend that Nationalist Government had lost confidence people and could not conceivably prosper until that confidence had been regained. He was completely unrealistic.

Incidentally, returning to town from Tungshan, saw armored military train pulled by UNRRA ⁷⁰ locomotive.

Sent Department; repeated Nanking 610, Shanghai 490, Taipei 113.

CLARK

893.51/8-1449 : Telegram

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

CANTON, August 14, 1949—3 p. m.

[Received August 15—12:50 p. m.]

Cantel 942. Ho Ying-chin has been getting together with Minister Fin[ance] Hsu Kan, Cantel 924, August 11, repeated Nanking 610, Shanghai 490. Hsu called at his request and during two hours admitted Chinese Government past misdeeds and corruption which he blamed largely on inflation and the war, outlined dire Chinese needs, and assured me that if we could lend Chinese \$40,000,000 per month, all would be well and Communists would be defeated under reinspired, well-paid armies led by Ho Ying-chin as commander in chief. He also perfectly willing try throw Generalissimo overboard and would welcome military mission help Ho reorganize and direct armies and financial mission to oversee expenditure loan. We could have any security for loan we could suggest. Failing loan, government resources, he said, at present rate of expenditures would be exhausted in 2 months.

When I asked why, if situation so desperate, he did not use Taiwan resources, he said he was in fact doing so, that it was those resources that will be exhausted in 2 months. (This is in contradiction Li Tsung-jen who says Generalissimo conserving resources to last 2 years, Cantel 918, August 10,⁷¹ Nanking 604, Shanghai 487.) Hsu denied vigorously that Taiwan resources were anywhere near \$300,000,000, insisting that they comprise only 800,000 ounces gold set aside to stabilize Taiwan currency and 2,375,000 ounces gold on which he is currently drawing.

⁷⁰ United Nations Relief and Rehabilitation Administration.

⁷¹ *Post*, p. 1393.

Cautioning Hsu that there was little likelihood favorable reception his request for loan until Chinese Government had demonstrated that it offered alternative to Communists, I finally agreed [to] present proposal to Department for instructions. Hsu plans attend International Monetary Fund meetings in Washington mid-September and would like come little early and discuss loan in Washington if reaction his plea is favorable. Should appreciate Department's early instruction.

Sent Department Cantel 942, repeated Nanking 621, Shanghai 493.

CLARK

893.50 Recovery/8-1549

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, August 15, 1949.

DEAR MR. SECRETARY: AS you have been aware, the Chinese Government has been and is engaged in a strenuous effort to resist the Communist aggression carried on by a regime acting in the interest of a foreign Power which is bent upon achieving world domination. Although the Chinese Army has sustained a number of reverses in past months and been obliged to withdraw in several areas, the Chinese Government is firmly resolved to continue its struggle in order to preserve the independence of China and the freedom of the Chinese people. This purpose, my Government believes, is in full accord with the basic principles by which, according to your recent statement,⁷² the policy of the United States Government will be guided in regard to China and the Far East in general. Moreover, in recent weeks the morale of the troops has risen and their fighting has much improved.

2. The next six months, however, constitute a critical period in the continued efforts of the Chinese Government to stem the tide of Communist aggression. The success or failure of its struggle during this period may have a decisive influence and effect on the destiny of China and perhaps of Asia as well. The Chinese Government will continue to exert its utmost in the spirit of self-help but it is also in great need of aid and support from the United States.

3. No application for a continuation of military aid was made last March along with the request submitted for economic aid,⁷³ inasmuch as it was the earnest hope of the Chinese Government that with the lull at the time in fighting, a truce could be arranged with the Communist leaders to be followed by a satisfactory peace settlement.⁷⁴ But this objective was found to be unattainable due to the lack of good

⁷² Issued on August 5 as press release No. 604; for text, see Department of State *Bulletin*, August 15, 1949, pp. 236-237.

⁷³ See the Chinese Ambassador's letter of March 31, p. 671.

⁷⁴ For correspondence on this subject, see vol. VIII, "Political and military situation in China", chapter II.

faith on the part of the Communists bent upon seizing control of the country by force and to their sudden resumption of hostilities against the Government troops.

4. At present, fighting is taking place in Kansu, Hunan, Kiangsi and Fukien Provinces. The line of defense which the Army is determined to hold extends from the Northwest down along the northern border of Szechwan Province and through Hupeh and Hunan into Kiangsi and Fukien to Foochow and the eastern coast.

5. The Chinese Government after a recent conference with the military leaders has adopted a unified system of command, an overall program of defense and attack, and a practical plan of coordinating the action of the various war areas as well as the action of the Navy and the Air Force with that of the Army. To help raise the morale of the armed forces, a part of the military pay is now being made in silver dollars. But with the limited financial and military resources at the disposal of the Chinese Government, there is a pressing need of American aid and support.

6. The special grants in aid ⁷⁵ extended by the United States Government to China under the China Aid Act of 1948 are deeply appreciated. This aid has been used for procurement of arms, ammunition and military supplies. The first shipment under this aid program reached China toward the latter part of November, and the bulk of the supplies arrived in Shanghai and Formosa in the first months of 1949. These were used effectively in the fighting in and around Shanghai which broke out in April of this year. They have also been of much help to the Chinese armed forces in the fighting which has been raging in Central and South China and in the North-western Provinces. Less than 50% are left and will soon be used up as the fighting becomes more intense and widespread. For this reason, more military aid, especially in the form of light arms and ammunition, aircraft and certain kinds of naval materials are urgently needed to enable the Chinese armed forces to continue the resistance against the Chinese Communist forces of aggression. The sum proposed for this purpose is \$287 million.

7. Of this amount, \$50 million is to cover costs of purchasing silver and coining silver dollars to be used as part of the military pay for Chinese troops and for a portion of their subsistence expense. This measure is highly desirable in order to raise the morale of the Chinese armed forces, as experience with the fighting of the Chinese forces in recent weeks has attested the importance of paying the soldiers, sailors and airmen in silver. Owing to the limited financial resources

⁷⁵ For correspondence on this subject, see *Foreign Relations*, 1948, vol. VIII, pp. 73 ff., and *ante*, pp. 599 ff., *passim*.

of the Chinese Government, it has not been possible to apply this practice to all the armed forces. But in the interest of sustained effective resistance to the Communist aggression, the need of the proposed item of military aid is both pressing and essential.

8. In order to promote confidence that the new aid, in whatever form it may be, will be put to the uses for which it is intended as effectively as possible, the Chinese Government proposes that a mission of military experts headed by a top-ranking representative be sent to China to assist the Chinese Government and the Chinese Army in the distribution and employment of the equipment and supplies thus procured. The Chinese Government considers this cooperation to be highly desirable and will welcome it.

II.

9. As regards the need of economic aid, it will be recalled that on March 31, 1949, I addressed a letter to you submitting a program for continued economic aid. Although not having a reply yet to my letter, I understand that Congress has by Section 12 of Public Law 47⁷⁶ (81st Congress) approved an extension of the period for using the balance of the China aid fund through February 15, 1950, and authorized the President to determine the manner, terms and conditions for using this aid. It is estimated that as of August 1, 1949, approximately \$90 million out of the original \$275 million fund for economic aid to China remains unobligated.

10. The economic situation, in the view of the Chinese Government, is as important as the military situation. The two fronts are intimately linked together and react upon each other. On account of the unfavorable developments in the military situation and the transfer of the seat of the Chinese Government from Nanking, revenue has considerably fallen off, while reductions in expenditure cannot be correspondingly great, thus enhancing the difficulty of balancing the budget. New measures and radical reforms have been carried out to cope with the financial stress, such as the considerable reduction of the personnel of the different departments of the Government and the reintroduction of the silver currency standard,⁷⁷ thereby curbing to some extent the inflation of prices and the economic distress of the people. Nevertheless, economic aid is indispensable to tide over the situation for the next six months during which fighting to stop the Communist advance is expected to intensify.

11. It is therefore proposed that the balance of the economic aid fund be made available to further carry out the purposes of the China

⁷⁶ Approved April 19; 63 Stat. 50, 55.

⁷⁷ See telegram Cantel No. 683, July 3, from the Minister-Counselor of Embassy in China, p. 793.

Aid Act of 1948 as extended and modified by Public Law 47 (81st Congress). In addition to a practical commodity program to help efforts toward economic stability, there is also an urgent need of using a part of the balance, namely, \$40,000,000 for purchasing silver bullion from Mexico for coinage into silver dollars to finance (a) exports of strategic materials to the United States, such as wolfram, antimony, tin, tung-oil and bristles, and (b) purchases of indigenous products, such as rice and other food products for ECA rationing and distribution. On several occasions in recent months, I ventured to urge approval of this proposal by the United States Government, more particularly the request to use a portion of the balance for the purchase of silver for coining silver dollars. The Chinese Government continues to believe that this proposed use is within the purview of the China Aid Act of 1948 and, by virtue of Section 12 of Public Law 47 (81st Congress), it falls within the discretionary powers of the President.

12. It is the hope of the Chinese Government that the stop-gap program based upon the proposed availability of the unobligated balance of the ECA China aid fund will be accompanied by an interim program of aid for a period of six months from September 1, 1949, to sustain as a special measure the newly adopted silver currency standard. The reintroduction of the silver dollar as the currency has helped to restore public confidence to a considerable extent and to raise the morale of the fighting forces as well as that of the civilian population. In order to conserve and enhance this satisfactory result, it is necessary to relieve the drain on the dwindling reserve arising from the fiscal deficit by an interim aid program calling for US\$36,000,000 for the above-mentioned period of six months.

13. In the event of the United States Government wishing to obtain fuller and more direct data regarding the financial, economic and currency situation in China before giving consideration to the proposed interim aid program, the Chinese Government will welcome a group of financial and economic experts to be sent to China as soon as possible. This group can be dispatched either as an independent unit or attached to the proposed military mission. This group, if dispatched, will receive the fullest cooperation of the Chinese Government in undertaking all necessary investigations and making recommendations to the United States Government regarding interim and post-interim aid requirements.

III.

14. Accordingly, by instruction of my Government, I beg to submit two Memoranda, one on military aid ⁷⁸ and the other on economic

⁷⁸ For memorandum on military aid, see p. 529.

aid,⁷⁹ for the favorable consideration of the United States Government. The reasons for the respective amounts proposed and the uses to which they will be put in each field are fully explained therein. If any further information is desired to facilitate consideration of the request, my Government will gladly furnish it to the best of its ability.

15. I beg to add that if Congressional legislation is required for granting the proposed aid, it is the hope of my Government that the United States Government will see its way to obtaining such necessary legislation before the present session of Congress goes into recess.

With high esteem,

Yours respectfully,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the Secretary of State

MEMORANDUM ON STOP-GAP AND INTERIM ECONOMIC AID TO CHINA

On March 31, 1949, the Chinese Ambassador addressed a letter to the Secretary of State, enclosing a Memorandum on the Continuation of U.S. Aid to China. Since the presentation of the Memorandum four months ago, vast changes have occurred in China both in the military and the economic fields. Reorientation of views and plans on what will constitute effective assistance to the Chinese economy is thus rendered imperative.

Perhaps the most important change that has recently occurred in the economic field is the reintroduction, since July 2, of the silver currency standard. The collapse of inconvertible currencies has left the Government with no alternative except to revert to a hard, metallic currency standard. Before the currency reform of 1935,⁸⁰ silver was the medium of exchange in China for centuries. In the minds of the people hard currency is still associated with stable price structure. The Chinese Government hopes that, through the introduction of hard money, a temporary halt may be called to the galloping inflation, and that the return of public confidence in the national currency may facilitate the introduction of measures of fiscal reform and bolstering the sagging morale.

As a corollary to the new currency measure, the Chinese Government is attempting to improve its fiscal position by overhauling old taxes and instituting new taxes, and by retrenchment in expenditure. In spite of such efforts, however, the Government faces a monthly defi-

⁷⁹ *Infra.*

⁸⁰ See telegram No. 641, November 4, 1935, 9 a. m., from the Consul General at Shanghai (Cunningham), *Foreign Relations*, 1935, vol. III, p. 629.

cit of between Silver \$30,000,000 and \$35,000,000. Governmental expenditure is estimated to be around Silver \$45,000,000 per month, of which Silver \$30,000,000 go to payment for soldiers and other military expenses. Revenue is approximately Silver \$10,000,000 a month, but is expected to be increased to \$15,000,000 a month when measures for fiscal rehabilitation take effect.

As an emergency measure, the current fiscal deficit is paid out of the Government's reserve in gold, silver, and foreign exchange. In so doing the fiscal deficit is prevented from directly contributing to the devaluation of the currency, which would necessarily occur if increased issue is resorted to. It is obvious, however, that the drain upon the Government's reserve cannot long continue without causing public alarm and loss of confidence. Also, as long as the war against the Communists continues, the probability of effecting a balance between governmental revenue and expenditure is remote. Furthermore, the calculated depletion of the Government's foreign exchange reserve imposes further difficulties upon the Government in meeting foreign exchange requirements for urgently necessary purchases abroad. External economic assistance, therefore, will be needed for the continuous importation of essential commodities, for the replenishment of the governmental reserve, and for the provision of sufficient silver to maintain the newly adopted metallic currency standard.

I. STOP-GAP PROGRAM

It is estimated that, as of July 1, 1949, upward of 90 million dollars out of the original 275 million dollars fund for economic aid to China remains unobligated. Of this sum a part has already been covered by existent procurement authorizations, which, however, are inactivated for the moment by changes in the current military and political situation. Through cancellation and revision and refund from diversions, upwards of 90 million dollars are available for programming in the continued operation of the China Aid Program.

It is the desire of the Chinese Government that this fund should be immediately made use of to produce the maximum amount of benefit to sustain the Chinese national economy. To that end the following proposed stop-gap program is herewith submitted:

1. Silver bullion \$40,000,000

It is proposed that the amount indicated should be earmarked for the acquisition of silver, chiefly from Mexico. The silver so acquired will be used to finance (a) purchases of export commodities such as wolfram, antimony, tin, tungoil and bristles, and (b) purchases of indigenous products such as rice and other food products for ECA rationing and distribution. ECA participation is requested in the effecting of all such purchases. After the products are sold, the foreign

exchange and domestic currency proceeds will be used under the joint supervision of ECA and Chinese Government representatives.

As current movement of China's export[s] is much hindered by the lack of ways and means of financing, the use of aid fund for such purposes will directly contribute towards the sustenance and revival of China's export trade.

2. Coarse Cotton Fabrics \$12,000,000

After the loss of Shanghai, there is a serious shortage of cotton fabrics and cotton yarn in the Government controlled territory. Some \$12,000,000 worth of U.S. Aid cotton has previously been diverted to Japan. It is proposed that arrangement may be made with SCAP⁸¹ to barter this cotton for finished products, chiefly coarse cotton fabrics, to be distributed in Taiwan and other South China ports to meet the urgent local requirements.

3. Other Commodity Programs

Other ECA China Aid commodity programs may be continued as heretofore at a much reduced scale.

(a) Rice \$12,500,000

50,000 tons for continuing the rationing program in Canton and Swatow, from September, 1949 to February, 1950.

25,000 tons for initiating the rationing program in principal cities in Hainan Island, from October, 1949 to February, 1950.

(b) Fertilizers \$5,500,000

50,000 tons for Taiwan requirement. Agricultural production in Taiwan is still seriously handicapped because of shortage of fertilizers. Although the amount indicated is insufficient for Taiwan requirement, it is hoped that additional amounts will be acquired by Taiwan with the use of its own resources.

(c) Petroleum Products \$8,000,000

It is estimated that the amount indicated will be sufficient to purchase South China and Taiwan requirements for the period July, 1949 to February, 1950.

Total	\$78,000,000.
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Of the China Aid fund still available, \$8,000,000 has already been earmarked for the operational expenses of JCRR.⁸² Whatever sum that may still be left over can be held as a reserve for other emergency uses.

It is the belief of the Chinese Government that all the proposed uses are aimed at achieving economic stability in China, and are thus generally consistent with the purposes of the China Aid Act of 1948. Furthermore, Section 12 of Public Law 47 (81st Congress), in extending the period during which the appropriated China Aid fund may be used, gives the President broad powers to determine the manner, terms and conditions of the aid.

⁸¹ Supreme Commander, Allied Powers in Japan.

⁸² Joint Commission on Rural Reconstruction. For correspondence on the establishment of this body, see *Foreign Relations*, 1948, vol. VIII, pp. 601 ff.

II. INTERIM PROGRAM

The stop-gap program outlined above requires no further legislation. It can be put into effect immediately, provided, of course, the United States Government will agree to it. For a limited period of time, the program will take care of China's essential import requirements, and will provide means to finance China's exports or indigenous procurement. But to sustain the newly adopted silver currency standard, additional external aid is needed.

It has been stated that the Chinese Government embarked upon the silver currency standard not as matter of free choice, but as a matter of necessity. The reserve is inadequate. As long as the war continues, the Chinese Government cannot see its way clear to balance revenue with expenditure, although serious effort will be continuously exerted in that direction. For a six-month period, the fiscal deficit will amount to Silver \$210,000,000. If the proposed Military Aid Program is approved, approximately Silver \$90,000,000 of this deficit will be taken care of. The remaining deficit will thus amount to Silver \$120,000,000, or roughly the equivalent of US\$70,000,000.

On July 8, the Government's total reserve, including gold, silver, and foreign exchange, amounted to the equivalent of US\$220,000,000, the gold bullion being converted into U.S. dollars according to the market rate. If the conversion is made at the U.S. official rate, the U.S. dollar equivalent amount of the reserve will have to be reduced by US\$50,000,000. Out of this reserve US\$40,000,000 has been earmarked as reserve for the Taiwan currency. Furthermore, because of the stepping up of Communist attack upon South China, inroad has been made in the reserve since the first week of July to meet emergency military expenses, for which complete figure is not yet available. Continuous payment of the fiscal deficit out of the Government's reserve, therefore, imposes a severe strain upon that reserve. If no external aid comes to the rescue, public confidence in the new currency cannot be long sustained.

It is proposed that, to sustain the Chinese currency and public morale in carrying on the war against the Communists, an interim aid program to the extent of US\$6,000,000 per month be initiated to meet about one-half of the monthly fiscal deficit, to be matched by an equal amount from the Chinese Government's own reserve. For a six-month period, the interim aid program will amount to US\$36,000,000.

In making this proposal, the Chinese Government is not unmindful of the position hitherto taken by the United States Government, namely, that the United States aid is, as a rule, not meant to be used by recipient countries for fiscal purposes. The situation in China, however, requires special consideration and treatment. The Chinese Gov-

ernment has been under the strain and stress of the exigency of war, almost continuously since V-J Day. The Communists are relentless in their attacks upon all phases of national economy. Under the prevailing circumstances, the Chinese Government cannot see its way clear to achieve fiscal balance without substantial external aid.

If the United States Government desires additional fiscal data and on the spot investigation before final action is taken, the Chinese Government will welcome the immediate dispatch to China of an economic group, either as an independent unit or attached to the proposed military mission. This group may undertake all necessary investigations in China, and make recommendations to the United States Government on all matters pertaining to interim and post-interim aid requirements. In addition, the Chinese Government will welcome advice and constructive proposals from the group on currency, fiscal reform, and all related matters.

WASHINGTON, August 15, 1949.

893.50 Recovery/8-1549 : Telegram

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

WASHINGTON, August 19, 1949—8 p. m.

TelCan 604. Letter received Aug 15 from Chinese Amb to Secy requesting mil and economic assistance for "critical" next 6 months. Request specifies 287 million dols mil assistance of which 50 million dols to purchase and coin silver for payment troops. Chinese Govt also requests Mil Mission headed by "top ranking rep" be sent China assist Chi Govt and Army in distribution and employment mil goods. Economic aid proposals are (1) "stop gap program" for use unobligated ECA funds estimated 90 million dols, of which 40 million for purchase silver to finance export strategic materials and purchase indigenous food supplies for ECA distribution, with balance used continue commodity imports, and (2) "interim aid program" consisting 36 million dols, presumably also for silver, to meet portion Chi Govt budgetary deficit.

Dept plans acknowledge Chinese letter, stating merely that it will be given careful consideration. This request apparently uncoordinated Hsu Kan approach to you reported Cantel 942 Aug 14 in view of substantial discrepancy amount of aid requested in support of fiscal operations. Since US Govt considering formal Chinese aid request, Dept sees no need advance visit Hsu Kan, and cannot, of course, indicate reaction prior full consideration of Chinese Govt's proposals.

ACHESON

893.50 Recovery/8-1549

The Secretary of State to the Chinese Ambassador (Koo)

WASHINGTON, August 23, 1949.

MY DEAR MR. AMBASSADOR: I wish to acknowledge the receipt of your letter of August 15, 1949, with accompanying memoranda, in which you request additional United States military and economic aid and propose a program for the use of funds available to ECA under Section 12 of Public Law 47 (81st Congress). The request for additional aid will be given careful consideration, as will the proposal for use of ECA funds, which is being referred to the Administrator for Economic Cooperation.⁸³

Sincerely yours,

DEAN ACHESON

893.50 Recovery/8-1549

The Secretary of State to the Deputy ECA Administrator (Foster)

WASHINGTON, August 23, 1949.

DEAR MR. FOSTER: Attached is a copy of a letter from the Chinese Ambassador, dated August 15, 1949, with accompanying memoranda, requesting United States military and economic assistance. It will be appreciated if the Economic Cooperation Administration will give the Department the benefit of its comments on the Chinese proposals for economic aid. I suggest that after I have had an opportunity to study these comments we might meet to discuss them.

Sincerely yours,

DEAN ACHESON

893.50 Recovery/9-949

The ECA Administrator (Hoffman) to the Secretary of State

WASHINGTON, September 9, 1949.

MY DEAR MR. SECRETARY: This is written in reply to your request of August 23 for comment by the Economic Cooperation Administration on the Chinese Government's latest proposals for economic aid to China, as contained in a letter and an accompanying memorandum sent to you by the Chinese Ambassador under the date of August 15.

We have examined the copies of these documents which were enclosed with your letter. Before commenting on them, it may be well for me to review briefly the scope of our recent economic assistance

⁸³ Paul G. Hoffman.

to China, conducted in accordance with controlling legislation and with decisions reached at a meeting between us on May 19, 1949.⁸⁴

Aid has been limited to the areas remaining free from Communist domination. With successive Communist advances, and particularly following the occupation of Shanghai, economic aid to the China mainland has declined precipitately. Continuing support has been given, on a minimum stock basis, to established food rationing programs in Canton and Swatow. Small fuel shipments have been made to south China. However, no new commitments for commodity programs have been undertaken. There has been no revival of the industrial replacement and reconstruction program which was suspended on December 21, 1948. Although suggestions have been made from time to time by Chinese representatives that a part of appropriated China Aid funds should be used for the purchase of silver to be used in support of the Chinese currency, it has been the view of the ECA that, apart from other considerations, the legislative history of the China Aid Act of 1948 and of Section 12 of Public Law 47 (81st Congress) precluded the use of appropriated China Aid funds for purposes of monetary stabilization or to meet the Chinese Government's budgetary deficits.

The only aspect of economic assistance to the China mainland which has received somewhat expanding support during recent weeks has been the program of the Joint Commission for Rural Reconstruction.

Aid to Taiwan,⁸⁵ conducted on a somewhat more flexible basis than assistance for the mainland, has included: Substantial importations of fertilizer and general supervision of its distribution; deliveries of crude petroleum for the Kaochiung Refinery and of other petroleum products in small quantities; utilization of the services of J. G. White Corporation engineers for advice with respect to various aspects of the Island's economy; approval of limited aid for expansion of indigenous fertilizer production; and, finally, continuing support for JCRR activities in Taiwan.

The proposals now advanced by the Chinese Government for economic aid would entail the use, in a re-expanded program, of funds remaining from the \$275 million appropriated for the purposes of the China Aid Act (which are estimated by the Chinese Ambassador at \$90 million but are, in fact, nearer \$100 million) and an additional \$36 million to be obtained through a new appropriation. The period of time envisaged for the help proposed is approximately the next six months.

⁸⁴ See memorandum of May 19 by Butterworth, p. 646.

⁸⁵ For correspondence on this subject, see pp. 261 ff., *passim*.

The purposes of the aid requested are described under a "stopgap program" and an "interim program" which together call for:

\$40 million to be earmarked for the acquisition of silver for use in financing (a) purchases of export commodities such as wolfram, antimony, tin, tung oil and bristles, and (b) purchases of indigenous products, particularly food for ECA rationing and distribution;

\$12 million for coarse cotton fabrics and perhaps other commodities to be obtained from Japan through the barter of ECA cotton diverted to Japan from the China Program;

\$12.5 million for continuing support to the food rationing programs in Canton and Swatow and for the initiation of new rationing programs in the principal cities of Hainan Island;

\$5.5 million for fertilizers to be used in Taiwan;

\$8 million understood to be already earmarked for the operational expenses of JCRR;

the balance of the estimated \$90 million (or about \$4 million) to be held as a reserve for other emergency uses; and

\$36 million, at the rate of \$6 million per month which would represent "about one-half" of the Government's monthly fiscal deficit, to be matched by an equal amount from the Chinese Government's own shrinking reserve—both amounts to be used for stabilization of the Government's recently inaugurated silver standard currency.

A first question, in the consideration of such a program, is whether it is capable of realization. Economic aid to China through the ECA, since it was first authorized by Congress 17 months ago, has inevitably depended, for its effectiveness and continuity, upon military security in the areas receiving assistance. The steady succession of territorial losses by the Nationalist Government has led to continuing contraction in the areas accessible for aid and, therefore, in the volume of aid provided. This basic condition, rather than any intention of reducing economic assistance to China, accounts for the fact that during the first year of the program it was not feasible to expend for aid to China more than about three-fifths of the funds appropriated by Congress for the purpose during that year, and the further fact that contraction in the aid provided has continued during recent months until it has now reached a relatively low level.

If the military and political situation should be altered in such a way as to offer reasonable security for a reinvigoration of the ECA aid program in any substantial portion of the China mainland, proposals such as those now advanced by the Chinese Government would appear more realistic than they do under present circumstances when Communist forces are reported to be continuing their advances in both south and northwest China without encountering any decisive opposition in either area.

Pending advice from the Department of State or the Joint Chiefs of Staff which might indicate a significant change in the military and

political outlook in China, it is the view of the ECA that a continuation of economic assistance to the China mainland, on the present basis, represents as much as should be attempted at this time. This involves the fulfilling of existing commitments with respect to commodity programs, without incurring any new commitments, and the provision of as much assistance as can be efficiently administered to the program of the Joint Commission on Rural Reconstruction in areas remaining free from Communist domination.

Procurement, in substantial quantity, of silver bullion with which to purchase in China commodities for export and for internal distribution under ECA supervision might, under more stable conditions, afford a significant means of providing assistance. However, with areas in which such commodities are produced and through which they would have to be transported coming increasingly under Communist control or subject to mounting administrative and economic chaos, there is little prospect that such a program could be put into effect in the manner envisaged in the Chinese proposals.

The same considerations apply to the proposed extension and enlargement of the current commodity import programs.

It is the view of the ECA that the provision of silver to China for use in support of the present Nationalist currency, aside from its questionable validity under present legislation, would have only a temporary and limited effect. It would treat the symptoms rather than the causes of financial instability in China. The basic causes are, of course, the unbalanced budget and the scarcity of goods. Only in combination with major measures to combat these causes, supported by some real hope of political stabilization, would silver imports amount to more than a short-range palliative. Moreover, the scarcity of goods in Nationalist-controlled China is now such that any significant increase in available silver would soon tend to increase commodity price levels in terms of silver, with the end result that it would take progressively more and more precious metal to accomplish the same budgetary effects.

The program of the JCRR has been regarded as being in several respects exceptional. It is not dependent upon extensive supply movements. Its projects are designed to produce early and lasting benefits to rural populations in the areas where they are conducted. These projects do not require heavy advance investments and they can be terminated as and when any area falls under or is threatened by Communist domination or control. They seem to offer the best available means of helping to improve the lot of China's rural people, in the process of which valuable experience is being gained. And they leave in China, while the opportunity of doing so remains, a record of unflinching interest on the part of the American people in helping the people of

China. For these reasons, ECA supports a continuation of the JCRR program in south and southwest China for as long as such a continuation remains feasible.

The Chinese proposals under consideration do not reflect any general demarcation between aid to the China mainland and to Taiwan. As indicated above, however, our economic assistance to Taiwan has been kept on a somewhat more flexible basis than aid to the rest of China. The question whether it is to the interest of the United States to accelerate and expand its present economic assistance to the Island, which up to now is relatively remote from current military activity, remains subject to political and strategic considerations which lie beyond the competence of ECA. If in the light of such considerations, however, it should be determined that a vigorous program of economic aid to Taiwan should be developed, it is the view of the Economic Cooperation Administration that with reasonable collaboration from administrative authorities on the Island, such a program involving an expansion of agricultural, industrial and commercial activity, could be conducted to the substantial benefit of the Taiwan economy in a manner which would render it progressively more viable.

In accordance with your suggestion I should be happy, after you have had an opportunity to consider the above comments, to meet with you for a discussion of them.

Sincerely yours,

PAUL G. HOFFMAN

893.50 Recovery/9-1549 : Telegram

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

CANTON, September 15, 1949—5 p. m.

[Received September 15—4:23 p. m.]

Cantel 1110. Foreign Office yesterday stated it most anxious have reply to *aide-mémoire* submitted by Chinese Embassy Washington August 15 regarding use of some US \$90 million remaining unexpected from ECA China funds. Declared that if US Government to help China now is the time; also none too much time remaining in which to use the funds before expiry date next February. I reminded Foreign Office that ECA continuing rationing in Canton and that JCRR putting some millions of dollars into Taiwan and south and west China. Reply was that these were considered as incidentals.

Foreign Office representative commented that recent speech by Roger Lapham⁸⁶ was "most peculiar". Meiklejohn⁸⁷ promised to see

⁸⁶ Formerly Chief of the ECA China Mission. His speech was delivered September 8 before the Commonwealth Club, San Francisco.

⁸⁷ Norman J. Meiklejohn, Acting Chief of the ECA China Mission.

me before returning to US but failed to do so. Thus have no idea what he has in mind.

Sent Department Cantel 1110; repeated Taipei 167.

STRONG

893.51/9-2149

*Memorandum of Conversation, by the Assistant Chief of the
Division of Chinese Affairs (Freeman)⁸⁸*

[WASHINGTON,] September 21, 1949.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. Rusk, G
Mr. Freeman, CA

Ambassador Koo called at his request this afternoon and stated that he had several matters he wished to discuss with Mr. Rusk.

To begin with, Koo mentioned some aspects of the recent scene in south China. He stated that, from a military point of view, the Nationalists had been having comparatively more success in the last three months than formerly and had managed to slow down the Communist drive and even halt it in some places, such as the Canton-Hankow railroad. Politically, he stated, progress was being made toward complete cooperation between the various factions within the Government which, although perhaps "too slow", was nevertheless progress. From an economic and financial point of view, however, Koo indicated that the National Government was almost at the end of its rope. The establishment of a freely convertible silver currency, he explained, had done much to improve the morale of the troops and the people who had lost all faith in paper currency, but without the importation in the near future of additional silver the Government would go bankrupt. He stated that the Government had recently purchased 30 million ounces of silver, 20 million of which had been minted in the U.S. However, he added, the U.S. had found it necessary to charge the Chinese for minting costs while the Mexicans found it possible to avoid this charge and had also been able to arrange satisfactory terms of payment. The remaining 10 million ounces of silver had, therefore, according to Koo, been purchased in Mexico.

The Ambassador stated that the National Government budget was approximately C\$45 million per month, only C\$10 to 15 million of which was currently being derived from revenue and other sources of government income. He said that he had been instructed by his Government to inform the U.S. Government that the foreign exchange

⁸⁸ Approved by the Deputy Under Secretary of State (Rusk).

reserves of the National Government were sufficient to last only through October at the latest, and he indicated that, if no outside assistance were forthcoming by that time, the Government would have no choice but to give up to the Communists who would take control of the entire country. Koo referred, in this connection, to a previous request which he had made to the Secretary in August with which he had submitted memoranda outlining his Government's need for economic and military aid. He stated that he was aware of the absence of any legislative provision for additional military aid to China but added that the National Government was very appreciative of the \$125 million grants in aid which had been used for the purchase of military supplies and which, in the Ambassador's words, had made it possible for resistance to the Communists to be maintained as long as it had been. Koo was specifically interested, he stated, in the unexpended portion of the ECA appropriations for economic aid, totaling approximately \$90 million, which could be used in any way that the President so desired. Koo stated that his request to the Secretary, which he indicated had been acknowledged but not answered, had contained a provision for the utilization of \$40 million for the purchase of silver for stabilizing the currency and for paying the troops. He also mentioned the provision in the pending MAP⁸⁹ resolution providing for \$75 million to be spent in China and nearby areas at the discretion of the President. Koo pointed out in this regard that, although there would be no objection to the appointment by the U.S. of consultants or advisers to assure that any funds would be properly spent, his Government would consider it inappropriate for any funds to be given directly to individual armies or groups other than the National Government. He explained that this proviso was not just simply a matter of prestige and that the National Government was not anxious to handle the funds itself, but he indicated that his Government would be highly displeased if any aid funds were not channelled through the National Government. (This point of view contrasts sharply with that recently expressed by Dr. Kan Chieh-hou, speaking in behalf of Acting President Li, who stated that the Government would have no objection if aid were extended to individual armies who are resisting the Communists.⁹⁰)

Ambassador Koo concluded his remarks on the question of financial assistance by stating that he realized that the National Government had been passing through a very unfortunate period; that it must accept the blame for many mistakes which have been made; but that the alternative was a completely Communist-dominated China, and surely

⁸⁹ Military Assistance Program.

⁹⁰ See memorandum of August 29 by the Deputy Under Secretary of State, p. 716.

none of the western nations would want to see that. He then inquired of Mr. Rusk, in behalf of the National Government, what aid if any could be expected and when.

Mr. Rusk stated that he could not reply specifically to the Ambassador's query except to state that the question was receiving the Department's thorough consideration. There were, Mr. Rusk indicated, two principal considerations in this matter: (1) what the basis for aid was with respect to need, effective utilization, et cetera, and (2) what the availability of funds was. With respect to (2), Mr. Rusk indicated that it would be perhaps ten days to two weeks before the discretionary \$75 million appropriation would be passed by the Congress and somewhat longer before the bill appropriating the necessary funds would be passed. Mr. Rusk gave no indication that any decision had been taken with respect to how the \$75 million fund would be used.

In response to Mr. Rusk's question with regard to what group the Ambassador had in mind when he referred to "the" or "our" Government, Koo stated that he was referring to Acting President Li Tsung-jen, General Yen Hsi-shan⁹¹ and also to the Generalissimo who, he stated, continued to enjoy immense prestige in China as the head of the Kuomintang party.

In reply to Mr. Rusk's question in regard to the situation in Formosa, Koo stated that there was great improvement being shown. He pointed out that Formosa had been contributing large monthly sums to help counterbalance the deficit of the National Government, but he indicated that the foreign exchange on Formosa was limited and that the authorities there had large silver obligations in supporting the Formosan silver currency and in paying the troops on the island. Koo implied, in effect, that Formosa's financial assistance to the Government on the mainland was rapidly coming to an end.

Mr. Rusk also inquired with regard to the present situation in Yunnan, to which the Ambassador replied that a "satisfactory arrangement" had been reached. He added, as evidence of the increased National Government hold on that area, that Lu Han⁹² was now, since his talks in Chungking with the Generalissimo, busily rooting out all traces of Communist activity in Kunming.

Ambassador Koo then brought up the second subject which he had in mind and which he stated was a report that the Department had on occasion instructed our Consulate General in Taipei to take up matters of a diplomatic character with the Chinese Government. Koo indicated that such a practice would be highly undesirable and would

⁹¹ President of the Chinese Executive Yuan since June.

⁹² Governor of Yunnan and Commander of Yunnan garrison forces.

merely serve to conflict with the established channels of diplomatic intercourse which were through the Ministry of Foreign Affairs at Canton. Mr. Freeman explained to the Ambassador that only on one or two occasions had the Department requested the Consulate General at Taipei to take up matters of a diplomatic character with the authorities on Formosa, and that in each case it had been parallel or supplementary action to that which had already been taken up in Canton. The purpose in these few cases, Mr. Freeman continued, had been to expedite action on urgent matters and had in no way constituted a by-passing of the established channels in Canton. The Ambassador appeared to be satisfied with this explanation.

Ambassador Koo then inquired of Mr. Rusk whether any definitive decision had been taken during the Acheson-Bevin⁹³-Schuman⁹⁴ talks⁹⁵ with respect to a Japanese peace settlement. Mr. Rusk informed the Ambassador that the talks on this subject had been only of an exploratory nature; that no definite decision had been taken; but there had been general agreement that we should get along with the matter. Koo remarked that he had discussed the question with Mr. Bevin before the latter's departure and had re-stated the compromise proposal which had been put forward by the Chinese some time ago. This proposal, as Koo explained, would call for a possible conference attended by all interested powers which would reach agreement on as many points as possible. On other points, he stated, there would undoubtedly be a wide area of disagreement between the western powers on the one hand and the USSR and its satellites on the other. These points on which no agreement could be reached would then be set aside, either for subsequent discussion or for agreement among the non-Communist powers. Such a proposal, according to Koo, would have the advantage of giving Russia every opportunity to discuss the question of Japan with the other interested powers, and would also permit an agreement on certain aspects of the situation even though full agreement could not be expected. Mr. Rusk said this was an interesting suggestion.

Ambassador Koo also touched upon the possibility that China might bring the case of Soviet violation of the Sino-Soviet Treaty⁹⁶ before the UN.⁹⁷ He reviewed the three objectives originally sought by China and asked Mr. Rusk's opinion in the matter. Mr. Rusk said that Am-

⁹³ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁹⁴ Robert Schuman, French Minister for Foreign Affairs.

⁹⁵ Held on September 15.

⁹⁶ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10, p. 300. For correspondence on this subject, see *Foreign Relations*, 1945, vol. VII, pp. 851-985.

⁹⁷ United Nations.

bassador Jessup⁹⁸ was in touch with Dr. T. F. Tsiang⁹⁹ on the matter in New York but he went on to explain briefly the reasons why the U.S. Government felt it would be inadvisable for China to press for points two and three; namely, that member nations resolve to withhold recognition from any Chinese Communist regime and that they extend moral and material assistance to the National Government. Koo indicated that he was aware of the U.S. position, but stated that he understood there would be far less objection to a resolution calling for abstention from extending aid to the Chinese Communists. Mr. Rusk replied that such an objective might be *easier* to obtain, but that it would still not be *easy*. Koo stated that, although it had been decided that Tsiang would bring the matter up in his opening speech, the decision had not yet been taken to place the matter on the agenda. He added that the Chinese Government had requested information from all of the interested friendly governments in an endeavor to ascertain the amount of support which might be forthcoming in the event that the Chinese case was brought up. Of the replies received so far, he stated, about one-half had promised to support China in the UN while the other half wished further to consider the matter or consult with other powers before committing themselves. He went on to say that his Government did not wish to bring up the case in the UN if it could not be assured of a large measure of support. Otherwise, Koo indicated, China would merely be holding itself up to ridicule.¹

In concluding the conversation, Ambassador Koo returned to the subject of financial assistance to the National Government and again emphasized the necessity of expeditious action on the part of the U.S. if anything were to be salvaged of the National Government and resistance to the Communists continued. Mr. Rusk again assured the Ambassador that the Department was giving full consideration to the needs of the National Government, but was otherwise non-committal.

893.50 Recovery/9-949

The Acting Secretary of State to the ECA Administrator (Hoffman)

WASHINGTON, October 3, 1949.

DEAR MR. HOFFMAN: The Department of State is grateful for the comments contained in your letter of September 9 regarding the Chinese Government's request for economic aid which was submitted on August 15. The Department is in agreement with the views ex-

⁹⁸ Philip C. Jessup, Ambassador at Large.

⁹⁹ Chinese Permanent Representative at the UN (Security Council).

¹ For further correspondence on this subject, see volume I.

pressed in your letter and believes that they represent a comprehensive treatment of the question in its economic aspects. We are still awaiting the comments of the Department of Defense on the Chinese requests for military aid.²

Consideration continues to be given to the political and strategic factors relating to Taiwan, and I hope that the Secretary or I will have an opportunity to discuss with you the future of ECA's operations on that island as soon as there has been sufficient clarification of these aspects of the problem.

Sincerely yours,

JAMES E. WEBB

893.50 Recovery/10-1149 : Telegram

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

HONG KONG, October 11, 1949—4 p. m.

[Received October 11—12: 25 p. m.]

Cantel 1186. October 7th conversation with Chang Chun,³ subject of several previous Cantels, of course, turned to question of US aid to China. To his question reference use of US \$75 million,⁴ Embassy stated had no knowledge of policy decision regarding use of funds in China and US was going to be extremely cautious in this field.

Chang asked what conditions Chinese Government would have to fulfill to become eligible aid consideration. Replied could give only own unofficial views which were that Chinese Government show could effectively oppose Communists; the usual political, military, financial and economic reforms; and right of US withdraw aid if thought necessary.

Chang then asked whether President Truman's discretionary fund could not be used in same manner of operation as JCRR. Individual projects to be documented by Chinese Government, US officials investigate each project, funds allocated by US for each approved project. Replied that this was an interesting approach but that Embassy was not competent to give opinion. Chang gave no indication of what specific projects he had in mind.

Chang then said Chinese Government aware of own failures and failings, and although cannot be changed over night, progress is being made. Agreed US Government had only friendship for Chinese and

² For reply from the Secretary of Defense on October 14, see p. 551.

³ Chinese Minister without Portfolio.

⁴ Authorized under the Mutual Defense Assistance Act of 1949, approved October 6; 63 Stat. 714.

its criticism was well meant, but Chinese Government like very anemic man who relying first on own vitality to recover but needs blood transfusions and US must help patient to feet with such transfusion. We replied that nothing would give more pleasure than to be able to report to US Government favorably on Chinese Government programs internally and in relation to Communists.

Sent Department Cantel 1186, repeated Shanghai 565, Taipei 197, by hand Hong Kong.

STRONG

893.50 Recovery/8-1549

The Secretary of State to the Chinese Ambassador (Koo)

WASHINGTON, November 7, 1949.

MY DEAR MR. AMBASSADOR: I refer to your letter of August 15, 1949 in which you request additional military and economic aid and propose a program for the use of funds available to the Economic Cooperation Administration under Section 12 of Public Law 47 (81st Congress), and to my letter of August 23 indicating that the Chinese Government's proposals would be given careful consideration by this Government.

A thorough review of the military and economic factors bearing on your request has been conducted by the appropriate agencies of this Government.

This Government is at present providing economic assistance to China under the legislation to which you referred that authorized the continuation of aid initiated under the China Aid Act of 1948. Furthermore shipments of material procured either through agencies of this Government or through commercial channels under the \$125 million grants authorized by Section 404(b)⁶ of the China Aid Act of 1948 are continuing.

The Congress by Section 303⁷ of the Mutual Defense Assistance Act of 1949, approved on October 6, 1949, authorized the appropriation to the President of \$75 million "in consideration of the concern of the United States in the present situation in China" which may be expended "to accomplish in that general area" the policies and purposes declared in the Act. The legislation appropriating the funds required to implement the Act was approved by the President on October 28,

⁶ 62 Stat. 159.

⁷ 63 Stat. 716.

1949.⁸ Earnest consideration is being given as to where and under what conditions these funds are to be expended and in this regard the views of the Chinese Government are being taken fully into account.

Sincerely yours,

DEAN ACHESON

IV. MISSION TO THE UNITED STATES OF DR. KAN CHIEH-HOU TO OBTAIN MORAL SUPPORT, FINANCIAL ASSISTANCE, AND MILITARY AID AND ADVICE⁹

711.93/5-549

*The Acting President of China (Li) to President Truman*¹⁰

CANTON, May 5, 1949.

MY DEAR MR. PRESIDENT: Throughout our war of resistance against Japanese aggression, the United States of America continuously extended to us her moral and material assistance, which enabled our country to carry on an arduous struggle of eight long years until final victory was achieved. The sincere friendship thus demonstrated by the United States has contributed not only to strengthen further the traditional ties between our two countries but to win the deep gratitude and unbounded goodwill of the people of China.

This policy of friendly assistance was continued when some years ago General George C. Marshall, under instructions from your good self, took up the difficult task of mediation in our conflict with the Chinese Communists,¹¹ to which he devoted painstaking effort. All this work was unfortunately rendered fruitless by the lack of sincerity on the part of both the then Government and the Chinese Communists.

In spite of this, your country continued to extend its aid to our Government. It is regrettable that, owing to the failure of our then Government to make judicious use of this aid and to bring about appropriate political, economic and military reforms, your assistance

⁸ P. L. 430; 63 Stat. 973.

⁹ For correspondence on urgent requests by the Government of China for a program of broad economic assistance, see pp. 671 ff.; for correspondence regarding Chinese requests for assistance in connection with currency stabilization and other fiscal matters, see pp. 729 ff., *passim*.

¹⁰ Presented to President Truman by Dr. Kan Chieh-hou on June 22. A letter along similar lines, dated May 5, was addressed to the Secretary of State and presented to Acting Secretary Webb by Dr. Kan on June 9. In telegram telCan No. 379, June 24, 2 p. m., the Secretary directed the Embassy Office in Canton to convey his acknowledgment and to express his "hope to have the opportunity of discussing the substance of your letter with Dr. Kan at an early date".

¹¹ December 1945 to January 1947; for correspondence on his mission to China, see *Foreign Relations*, 1945, vol. VII, pp. 745-828, and *ibid.*, 1946, vols. IX and X.

has not produced the desired effect. To this failure is attributable the present predicament in which our country finds itself.

The situation in China has now entered a very critical phase indeed and has occasioned widespread anxiety among all classes of the Chinese people. I venture to think that it is also a matter of deep concern to Your Excellency.

If nothing were done to reinforce the position of the Chinese Government so as to enable it to stem the tide of communist infiltration, and if, in consequence, it should one day become necessary even to evacuate the Pearl River valley, the very last line of defence for the Nationalist cause, not only would the whole of China be subjected to Communist control but all the countries of East Asia would soon fall behind the Iron Curtain of the Cominform,¹² a contingency fraught with grave consequences.

During the last three months when the country has come under my administration, I have spared no effort to seek peace with the Chinese Communists, but their persistent design to carry out their decision of communizing the whole of China has doomed this endeavor to failure.

For the safeguard of China's democratic freedom and national independence, I feel that I am in duty bound to lead my Government in a defensive campaign of resistance against the tyrannical force of Communism. At the same time, I am convinced that fundamental reforms must speedily be introduced in the political, economic and military fields before the confidence of the people can be restored, the morale of the armed forces bolstered up, and the crisis facing us averted.

On the basis of this conviction, I have made up my mind to surmount every difficulty and remove every obstacle in the way of consummation of the policy just outlined. I firmly believe, however, that to the implementation of this policy the continued assistance of your country is still indispensable. In asking for your further aid, I can assure you that my Government will make the most careful and best use of whatever may be offered to us.

Dr. C. H. Kan is an old friend of mine, who possesses an accurate understanding of the traditional relations between our two countries and of the situation now prevailing in China. I have asked him to come and call on you in the capacity of my personal representative. I should appreciate it if you would receive him and feel free to discuss with him everything that relates to the subject matter of this letter.

With kindest personal regards [etc.]

LI TSUNG-JEN

¹² Communist Information Bureau.

893.00/6-149

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] June 1, 1949.

Participants: Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen
Mr. W. Walton Butterworth, Director for Far Eastern Affairs
Mr. Philip D. Sprouse, Chief, Division of Chinese Affairs
Mr. Fulton Freeman, Assistant Chief, Division of Chinese Affairs

Dr. Kan Chieh-hou, who has just arrived in the U.S. from Canton, called by appointment this noon. He opened the conversation by stating emphatically that he did not represent Chiang Kai-shek,¹³ the CC Clique,¹⁴ the Soongs, the Kungs, or anyone other than Acting President Li Tsung-jen. He then described in some detail the events in China since the "retirement" of the Generalissimo leading up to the present situation confronting the Acting President in Canton. Referring to the peace negotiations between Li Tsung-jen and the Communists,¹⁵ Dr. Kan stated that it was the Communists' insistence that the Generalissimo be handed over as a war criminal and Li's refusal to comply therewith that led directly to the breakdown of negotiations and the crossing of the Yangtze. He stated that Li had attempted to convince the Communists that he could handle the Generalissimo and the CC Clique by political means if peace were assured, but that the Communists' 24 point ultimatum put an end to any further negotiation.

When an attempted crossing of the Yangtze appeared inevitable, Dr. Kan stated that Li endeavored to obtain the Generalissimo's support for establishing a strong defense line south of that natural barrier with the majority of the troops to be concentrated between Nanking and Anking, the most logical place for crossings. Chiang was insistent, however, that the Yangtze could not be defended, according to Dr. Kan, and he refused to order the necessary troops and air support for the task. Dr. Kan attributed Chiang's reluctance to defend the Yangtze to the latter's selfish desire to rid himself of Li through the breakdown of peace negotiations and Communist capture of Nanking.

On April 22, after Communist troops had begun to cross the Yangtze almost unopposed, Dr. Kan stated that he accompanied Li by air to

¹³ Generalissimo Chiang had retired January 21 as President in favor of Vice President Li Tsung-jen as Acting President.

¹⁴ Faction headed by brothers Chen Li-fu and Chen Kuo-fu in the Kuomintang (Nationalist Party).

¹⁵ For correspondence on this subject, see vol. VIII, "Political and military situation in China", chapter II.

Hangchow for a conference with Chiang to decide what next steps to take. Disregarding the question of the defense of Nanking or the Yangtze Valley area, the Generalissimo, according to Kan, proposed that an extraordinary committee of the Kuomintang be established with Chiang as Chairman and Sun Fo¹⁶ and Li Tsung-jen as Vice Chairmen—Sun Fo to take the chair in the event of the Generalissimo's absence. Kan pointed out that this proposal, needless to say, was completely unacceptable to Li whose nominal title of Acting President would have thus carried even less power and authority than is presently the case with Chiang and Sun Fo again running the country.

The basis of Chiang's defense plan, according to Kan, was to hold the coast line opposite Formosa from Wenchow to Amoy. The Generalissimo would then retire to Formosa to wait out World War III at which time, backed by American forces, he would hope to return to the mainland in the role of the supreme liberator. Kan stated that Li had endeavored to dissuade Chiang from following a plan based on the defense of Formosa by the Nationalists on the basis that the U.S. Government would never in any event permit Formosa to fall into the hands of the Communists¹⁷ and defense by the Chinese was therefore unnecessary. (This statement by Kan was received without comment.) Li had argued, therefore, that the Nationalists should concentrate their defensive strength on the mainland in the south and west of China and, in effect, leave Formosa for the U.S. to defend. Kan added that Chiang had nevertheless been obdurate in his expressed intention to withdraw to Formosa.

As described by Kan, Li's plan for the defense of south China is based on the assured cooperation of General Pai Tsung-hsi¹⁸ and four Kwangtung generals, all of whom are bitterly opposed to Chiang: Chang Fa-kwei, Hsueh Yueh, Yu Han-mou and Chen Chi-t'ang. Kan also claims that the defense of west China will be facilitated by Hu Tsung-nan's¹⁹ forces, who have withdrawn from the Sian area to the Szechuan border, and 80,000 of Fu Tso-yi's²⁰ troops who eluded the Communists in Kalgan and are now on their way to join the Moslem troops of Generals Ma Pu-fang²¹ and Ma Hung-Kwei²² in defending the northwest. The line which Kan stated that Li expects to hold in south China begins at Changsha in Hunan Province (now reportedly under heavy attack by the Communists), runs south along the Canton-Hankow railroad through Hengyang to Kukong and then turns south-

¹⁶ President of the Chinese Executive Yuan from December 1948 to March 1949.

¹⁷ For correspondence on Formosa, see pp. 261 ff.

¹⁸ Military and Political Affairs Director for Central China.

¹⁹ Pacification Commissioner for Shensi.

²⁰ Commander in Chief of North China Bandit Suppression Forces at Peiping until its occupation by Chinese Communist forces in January.

²¹ Military and Political Affairs Director for Northwest China.

²² Governor of Ninghsia.

east to include Canton and the majority of Kwangtung Province in the area to be defended. Kan insisted that every effort must and will be made to hold this line. He mentioned the possibility, however, that despite all efforts Canton might fall to the Communists and stated that in this event the line would be drawn to the south of Canton and Kwangchowwan would be used as the principal port. If Kwangchowwan should also be lost, Kan indicated that any further efforts to resist the Communists from south China would be futile.

Kan then came to what obviously constituted the principal reason for his trip to the U.S. While Li possessed the will to fight, the loyalty of capable generals and the necessary troops who would carry out their commands, Kan pointed out that he lacked sufficient arms and ammunition, silver to pay the troops and the sympathetic encouragement of the U.S. He readily admitted that the Generalissimo had sufficient materiel and funds for the job in Formosa, but he stated that the only way that these could be acquired for a defense of south China was if Chiang himself were to come to Canton and reassume charge of the government. This, Kan indicated, was unthinkable and could only end in disaster. He stated that Li was prepared to oust from south China all of the Generalissimo's henchmen, CC Clique adherents and "reactionaries"; to institute immediately the "necessary reforms"; and to provide a stubborn and effective defense. But these things, he commented, could not be carried out without at least the moral support of the U.S. Kan stated that, for example, Li was prepared to have posters denouncing the Generalissimo put up all over the city of Canton some night with strict orders to the police that they were not to be removed before 10 a.m. the following day. This, he stated, would give the people an opportunity to see them before they were removed and would constitute a warning to Chiang and his crowd to keep out of Canton. (The still dominant position of Chiang Kai-shek was apparent in Kan's statement that "of course such posters would have to be removed within a reasonable time").

Referring to Dr. Kan's indication that Li would require U.S. moral and perhaps material support for any concerted defense of south China, Mr. Butterworth stated that south China was continuing to receive substantial material support from the U.S. through the ECA²³ food rationing program and added as his opinion that, were it not for this program, there would already have been famine conditions and food rioting in Canton. Mr. Butterworth described in some detail the genesis of the food rationing program in China and pointed out the double advantage to the Chinese Government of having 60 percent of the rice requirements supplied by the U.S. as well as enjoying the

²³ Economic Cooperation Administration.

deflationary effect of the counterpart funds. He also informed Dr. Kan that the question of direct financial assistance to China through a grant or loan in silver²⁴ to forestall further currency depreciation had been given serious consideration, but that the advice of financial experts had been that any such course would be wholly impracticable until means were found to bring China's disbursements and receipts into balance. Gresham's law, he stated, would continue to operate and the bad money would simply drive the good into hiding.²⁵

At this point Dr. Kan stated that Li fully approved of the policy toward China which the U.S. had been following and believed that the fault was entirely China's for failing to make judicious use of the aid which it had received. Kan added that it was not only useless but dangerous to send any further arms or ammunition to the Generalissimo because such materiel would eventually fall into the hands of the Communists. Kan urged, however, that the State Department or the President make some statement expressing sympathy for Li's position and giving moral encouragement to further resistance to the Communists in order to give evidence that the U.S. had not forgotten China.

Mr. Butterworth responded that the U.S. Government applauded the courageous way in which Li had endeavored to carry out his responsibilities as Acting President and that the U.S. was in great sympathy with Li's efforts to work out of the tremendous difficulties which confronted him. He stated, however, that our present and continuing aid would seem to constitute concrete evidence of our interest in and encouragement to the forces of resistance in China. There were, however, he pointed out, certain Chinese and other vocal exponents of aid to China who had followed the policy of minimizing the amount of aid which the U.S. had given to China instead of publicizing the extent of that aid. He added that such tactics had undoubtedly had the effect in China of lowering morale and giving the false impression that U.S. aid has been paltry.

Dr. Kan readily acknowledged that in this as well as other ways Li was having to pay for the Generalissimo's mistakes, but at the same time he reiterated his request for a statement of sympathy and encouragement. In response to a question regarding the specific content of such a statement, Dr. Kan replied in vague generalities. It was implicit throughout the conversation, however, that agreement to issue a statement of the type that Kan and Li desired would be considered as the forerunner to a large silver grant or loan for troop pay and

²⁴ For further correspondence on this subject, see pp. 729 ff., *passim*.

²⁵ Sir Thomas Gresham, English financier, had first propounded the economic principle as stated by Mr. Butterworth.

currency stabilization. It was also clear that Li did not consider himself in a strong enough position to oust the Generalissimo and the CC Clique singlehandedly and that he was eager to have the U.S. assume a large measure of the responsibility therefor.

In concluding the conversation Dr. Kan handed Mr. Butterworth a copy of a letter dated May 5 from Li to the Secretary ²⁶ explaining in general terms the purpose of Kan's visit. Dr. Kan stated that he had a similar letter addressed to the President ²⁷ which he desired to present personally, but he indicated that on that occasion it would be necessary for Ambassador Koo to accompany him. Under such circumstances, he explained, it would be impossible for him to talk freely, particularly with regard to the Generalissimo, and he indicated that he would therefore be appreciative if Mr. Butterworth would make Kan's real views known to the President. Kan also expressed the desire to have an appointment with the Acting Secretary at which time he indicated that Ambassador Koo would also probably be present. Mr. Butterworth assured Dr. Kan that he would discuss his proposals with his superiors in the Department and that he would communicate with him at a later date with regard to an appointment with the Acting Secretary.

893.00/5-1549

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State (Webb)*

• [WASHINGTON,] June 2, 1949.

Reference is made to Nanking's telegram No. 1026 of May 15 ²⁸ (Tab A) transmitting the text of a message received from Acting President Li informing the Ambassador of the proposed trip to the U.S. of Dr. Kan Chieh-hou as Li's personal representative.

Dr. Kan recently arrived in Washington, and there is attached a memorandum (Tab B) of a conversation which I had with him on June 2 [1]. I believe that you may wish to read this memorandum in its entirety. There is also attached a copy of a letter (Tab C) dated May 5, 1949 from Acting President Li to the Secretary ²⁹ which was left with me by Dr. Kan. Dr. Kan expressed the desire to have an appointment with you, perhaps with the intention of presenting you with the original of Li's letter to the Secretary, and I recommend that FE ³⁰ be instructed to arrange for the appointment if you concur.

²⁶ Not printed; see footnote 10 to letter of May 5, *supra*.

²⁷ *Supra*.

²⁸ Vol. VIII, "Political and military situation in China", chapter IV.

²⁹ See footnote 10 to letter of May 5, p. 699.

³⁰ Office of Far Eastern Affairs.

Acting President Li's appeal for moral and material support as transmitted through Dr. Kan is strongly reminiscent of the approach made by the Generalissimo in his message to the President in November 1948³¹ (Tab D). In that message Chiang appealed for increased military assistance and for "a firm statement of American policy in support of the cause for which my Government is fighting". In the President's reply³² (Tab E) he stated that he believed that his previous public statement and that of General Marshall together with the action of the U.S. Government in extending assistance to China under the China Aid Act had made the position of the U.S. clear. Again on December 27, 1948 Madame Chiang Kai-shek handed Mr. Lovett³³ a further appeal from the Generalissimo for moral or material support³⁴ (Tab F) in which Chiang indicated that if aid were not forthcoming he would step aside "to make way for negotiation".

The bitter denunciation of Chiang and his group by Dr. Kan and the professed desire of Li Tsung-jen to make a clean break with all those officials who have sought refuge in Formosa constitute additional evidence of the widening schism within the National Government which may well develop into a situation where there may be two "National Governments"—one in Formosa under the Generalissimo and the other in Chungking under Li Tsung-jen.

893.00/6-949

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] June 9, 1949.

Participants: Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen
 Dr. V. K. Wellington Koo, Chinese Ambassador
 Mr. James E. Webb, Acting Secretary
 Mr. Philip D. Sprouse, Chief—CA
 Mr. Fulton Freeman, Asst. Chief—CA

Dr. Kan Chieh-hou called on me this morning by appointment accompanied by Ambassador Koo and presented me with a letter from Acting President Li to Secretary Acheson.³⁵ (A copy of this letter was handed to Mr. Butterworth during his conversation with Dr. Kan on June 1.)

³¹ For text, see telegram No. Telmar 155, November 12, 1948, 8 p. m., to the Ambassador in France (Caffery), *Foreign Relations*, 1948, vol. VIII, p. 201.

³² For text, see telegram No. 1608, November 12, 1948, 7 p. m., to the Ambassador in China, *ibid.*, p. 202.

³³ Robert A. Lovett, Under Secretary of State until January 1949.

³⁴ See footnote 48, *Foreign Relations*, 1948, vol. VIII, p. 306.

³⁵ Dated May 5; see footnote 10 to letter of May 5, p. 699.

Dr. Kan then proceeded to outline the manner in which Acting President Li expected to utilize all the forces at his command to defend south and west China against the Communists much as he had explained it to Mr. Butterworth (Tab A).³⁶ Notable, however, was the absence of any criticism of the Generalissimo by Dr. Kan and of any indication of a split between the Generalissimo and Li, both of which were emphasized in Kan's conversation with Mr. Butterworth. The obvious reason for this change of tactics was the presence of Ambassador Koo, a strong Generalissimo supporter.

In support of his statement that there was still time for US assistance to be effective in south China, Dr. Kan stated that he had received a telegram from Li yesterday to the effect that Communist pressure on Changsha (in Hunan Province) and Canton had been somewhat relieved, that the morale of the Nationalist troops in south China was excellent and that Li was hopeful of establishing a line somewhere across Hunan and Kiangsi provinces which would keep the Communists some 2-300 miles from Canton.

Dr. Kan urged that two specific measures be taken by the US to strengthen Li's resistance to the Communists: moral support, in the form of a statement of sympathy and encouragement, and economic aid, in the form of a loan or grant in silver. In connection with Kan's request for a statement, he pointed to the increasing speculation in the press over the question of possible US recognition of the Chinese Communist regime³⁷ and urged that the US disclaim any such intention. I replied that I had made a statement on this matter at my press conference last week indicating at that time that there was as yet no Communist government in China and that it would apparently be some time before such a government could be established.

With regard to Dr. Kan's second point—economic aid—he stated that Acting President Li was hopeful that the US would investigate the possibility of using a portion of the unexpended ECA funds (Dr. Kan referred to these funds as being “approximately \$100 million”) for the purchase of silver with which to support the depreciating currency in China. Kan stated that China's funds were adequate to purchase approximately US \$20 million of minted silver coins, but he emphasized that to have any permanent effect this amount would have to be followed by assurances of a much larger amount.

Ambassador Koo expanded on and reiterated Kan's request that unexpended ECA funds be used for the purchase of silver and added that he had one further request to make which “would not cost the US anything.” This, he stated, was that Ambassador Stuart be instructed

³⁶ June 1, p. 701.

³⁷ For correspondence on this subject, see pp. 1 ff.

to visit the capital at Canton en route to the US³⁸ for consultation which, according to Koo, would do much to raise the morale of the National Government.

At the conclusion of the conversation I informed Dr. Kan and Ambassador Koo that, as I had only comparatively recently undertaken my position in the Department, I was not in a position to give them definitive replies to their requests. I assured them, however, that I would discuss the substance of our conversation with Secretary Acheson who was returning shortly to Washington³⁹ and would make suitable reply to Acting President Li in due course. I also informed Ambassador Koo that I would investigate the possibility of utilizing ECA funds for the purchase of silver and would inform him in the premises.

893.00/6-2249

Memorandum of Conversation, by the Chief of the Division of Protocol (Woodward)

[WASHINGTON,] June 22, 1949.

Participants: The President
 The Chinese Ambassador, Dr. Koo
 The Personal Representative of the Acting President of China, Dr. Kan Chieh-Hou
 The Chief of Protocol, Mr. Woodward

The Chinese Ambassador called upon the President at 12:15 p. m. today and brought with him Dr. Kan Chieh-Hou, Personal Representative of Acting President Li Tsung-Jen of China.

Dr. Kan presented a letter⁴⁰ in Chinese from the Acting President and told the President that he had been sent by General Li to lay before the President the latest developments in China's fight against the Communist forces. The President thanked Dr. Kan for the letter and said that he would send a reply.

Dr. Kan produced two small maps of China, the first one showing in red the territory occupied by the Communists, and the second one showing the same features but with the strategic lines upon which the Nationalist forces could fall back if necessary. Dr. Kan spoke of two recent victories of the Nationalist forces, victories which unfortunately had not been reported in the press, and victories which showed that the Nationalist forces had not lost their will to fight. The Presi-

³⁸ For correspondence on this subject, see vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists".

³⁹ He had been participating in a meeting of the Council of Foreign Ministers at Paris.

⁴⁰ May 5, p. 699.

dent said that he knew about these developments and realized that they had not been reported in our press.

Dr. Kan then explained the second map with particular reference to the lines of defense to be held by the Nationalist forces and stated that the Nationalist troops could fall back on these lines if necessary and hold them permanently against the Communists. He explained that even if this were necessary, there would still be more of China left in Nationalist hands than there was during the Japanese invasion. The President observed that the Nationalists would then be without seaports, to which Dr. Kan and the Ambassador replied that Kwangchow, the small port on the southern coast formerly leased to the French and now returned to China, would remain in Nationalist hands. Dr. Kan continued that the Mohammedan troops and other Nationalist forces which had given such good account of themselves in recent fighting had fought without benefit of American arms or equipment. He knew, he said, from his visit to the United States and conversations with everyone here that America wished to be helpful and that the greatest need at present was not for arms but for silver with which to pay the Nationalist armies to keep them fighting.

To this the President replied that the greatest need in China was for the leaders of the Nationalists to get together and really do something. He said that he was interested in what Dr. Kan had told him but that he was from Missouri and that he would have to be shown that they meant business. Both Ambassador Koo and Dr. Kan said they understood. The President added that he had always hoped that China would be the greatest power in the Orient and that he had been terribly disappointed when the arms and equipment sent to China to help them in the struggle against the Communists had been surrendered to the enemy. Furthermore, General Marshall had gone to China and had tried to help them, had told them what to do and it had done no good. China would have to prove itself in deeds, not words, before it could regain our confidence. Afterwards we would see what could be done to help.

Thereupon the President arose and asked Dr. Kan to give his best regards and best wishes to Acting President Li when he returned to China.

The Ambassador asked if he could add one word before leaving. His Government, he said, wished to make three specific requests of the American Government. First, that China's balance of \$90,000,000 already authorized for the ECA be used for the coinage of silver money in the U.S. Mint for delivery to China. Second, that a small group of American military experts, perhaps three or four men, be sent to

China to observe military developments⁴¹ in the light of what President Li had reported through Dr. Kan. And third, that Mr. Stuart, our Ambassador in Nanking, and therefore in Communist occupied territory, be instructed before returning to the United States to pass through Canton to get both sides of the story.

The President replied that he would discuss these points with the Secretaries of State and Treasury.

711.93/5-549 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 28, 1949—6 p. m.

TelCan 391. Pls convey fol to Acting President Li from President Truman:

"My dear Mr. President: Dr. Kan Chieh-hou called on me on June 22 and presented me with your frank and thoughtful letter of May 5 for which I am very appreciative. As Secretary Acheson has only recently returned from Paris, I have not yet had an opportunity to discuss with him at length the substance of your communication and of my conversation with Dr. Kan. I may assure you, however, that the US Govt. is deeply concerned over recent events in China and will give serious consideration to the points raised in your letter.

* With kindest regards, Sincerely yours, Harry S. Truman."

Repeat AmEmbassy, Nanking, 751.

ACHESON

893.20/7-149

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] July 1, 1949.

Participants: Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen
Ambassador V. K. Wellington Koo, Chinese Embassy
The Secretary
Fulton Freeman, Asst. Chief, Division of Chinese Affairs

Dr. Kan Chieh-hou, accompanied by the Chinese Ambassador, called by appointment today and handed me a memorandum⁴² illustrated by maps with regard to Acting President Li's plans for defend-

⁴¹ For correspondence on this subject, see pp. 472 ff., *passim*.

⁴² *Infra*.

ing south and west China. I thanked him for the memorandum and assured him that I would read it with interest.

Dr. Kan stated at the outset that he wished to make three requests of the U.S. Government as follows: (1) that the President or I make a statement of sympathy and moral encouragement indicating continued U.S. support of the National Government; (2) that a portion of the \$90 million unexpended ECA funds be used for the purchase and minting of silver for the payment of troops and stabilization of the Chinese National currency; and (3) that a top-ranking U.S. military man be sent to China to observe and report developments. In explanation of the second request, Dr. Kan stated that approximately 50 per cent of the total Communist forces consisted of troops which had either defected or been captured from the Nationalists; that there was at present no incentive for those troops to return to the Nationalist side since there was nothing to offer; but that, if the Nationalist troops were to be paid in silver those forces which previously owed allegiance to the National Government would immediately desert the Communists and return to the Nationalist ranks. Dr. Kan added that, if it proved impossible to utilize ECA funds for this purpose, he desired to request a U.S. Government loan for the purchase and minting of silver which would be repaid in full. In this connection, Dr. Kan stated that the Chinese Govt. was anxious for its own sake to assure that any additional aid funds were not misspent and would therefore agree to the establishment of "*any* method", such as a Sino-American committee, etc., which would assure proper use of the funds. (Dr. Kan was noticeably vague in his suggestions as to what type of "method" might be successful in this regard.)

I informed Dr. Kan that I had discussed some of these matters with the President and would do so again. With regard to the question of utilizing ECA funds for the purchase of silver, however, I reminded Ambassador Koo that I had discussed the matter with him prior to my departure for Paris at which time I had indicated that such use of ECA funds was not possible. Ambassador Koo pressed the point, stating that there appeared to be no reason within the legislative framework of the ECA Act preventing such use of the funds. I replied that the decision had nevertheless been taken after thorough consideration and that Mr. Lapham⁴³ had so informed the Chinese authorities. I stated, however, that I was not familiar with the technical reasons for the decision and that I would again look into the matter. With regard to the question of a loan to the Chinese Government for the purchase of silver, I stated that I knew of no authority presently existing which would permit such a loan.

⁴³ Roger D. Lapham, Chief of the ECA China Mission.

Dr. Kan then returned to his request for a statement which would give moral encouragement to the National Government. He pointed out in this regard that the publication of a White Paper on U.S. relations with China⁴⁴ might have the effect with some people of indicating that the U.S. no longer supported the National Government. He urged, therefore, as an antidote that a statement of sympathy and support be made prior to the publication of the White Paper which would in effect serve notice that the U.S. Government had no intention of withdrawing support from the Nationalists. In this connection, Dr. Kan made mention of my letter to Senator Connally⁴⁵ the publication of which, he insisted, although unintended by the Department, had had the effect of lowering morale in Nationalist China. I assured Dr. Kan that his request would again receive the Department's serious consideration and that I would discuss the matter with the President.

At this point Ambassador Koo indicated that he had one further request to make, namely, that Ambassador Stuart be instructed to proceed to the U.S. via Canton when he returned on consultation to enable him to discuss recent developments with National Government officials there. I recalled that Ambassador Koo had made a similar request prior to my departure for Paris and said that there were certain objections to such a trip including the additional physical burden it would place on our elderly Ambassador. I stated, moreover, that Minister Clark in Canton was extremely conversant with the situation in Canton and was keeping the Department fully informed of developments. I informed Ambassador Koo, however, that I would look into the question once again.

In response to my inquiry with regard to Ambassador Koo's estimate of the position of the National Government in Canton, he replied that the military situation was much brighter than it had been of late. He stated that the Communist forces had not only been checked in Hunan and Kiangsi some 240 miles from Canton, but that they were suffering from troubles in their rear. These troubles, he stated, consisted of successful counter attacks by Hu Tsung-nan and Ma Hung-kwei's troops in the Sian area and increased dissatisfaction on the part of peasants within Communist occupied areas. He also indicated that two divisions had recently been transferred to the Canton area and that these troops were being integrated and stationed under General Pai Chung-hsi. As a result, according to Ambassador Koo, it appeared probable that the Nationalists would be able to hold the Canton area for approximately two months although any further period of resistance would be dependent upon the receipt of arms,

⁴⁴ For correspondence on this subject, see pp. 1365 ff.

⁴⁵ March 15, p. 607.

ammunition and silver, all of which were in short supply. Ambassador Koo further stated that, in view of the fact that the Communist threat to Canton was no longer imminent, plans to move the seat of the Government to Chungking had been postponed for the time being.

I inquired of Dr. Kan as to what progress had been made as a result of Acting President Li's efforts to secure needed military equipment and specie from Formosa. Dr. Kan avoided a direct reply to my question but spoke at length with regard to the heavy requirements on Formosa for supplying, paying and feeding the large number of troops presently on the island. (Dr. Kan placed the number of troops on Formosa at "about 150,000"; in response to my correction that they numbered more nearly 300,000, however, he indicated that my figure "might be correct".) I inferred from Dr. Kan's remarks that Li had so far been unsuccessful in obtaining any significant amount of military equipment or funds from Formosa.

At the conclusion of Dr. Kan's remarks about Formosa, he stated that he wished to clear up the status of the so-called "high policy committee" which had recently been formed with the Generalissimo as Chairman and Li Tsung-jen as one of the vice chairmen. He said that this committee was not in fact a policy committee of the Government but represented merely a revised version of the Central Political Council of the Kuomintang and was strictly a Party organ. Formerly, he stated, the membership of the Council numbered approximately 200, while the new committee consisted of only 12 members. Presumably in an effort to play down the importance of the Generalissimo within the Government, Dr. Kan emphasized several times that the committee was concerned only with Party affairs and had nothing to do with formulating high Government policy.

At this point Ambassador Koo mentioned the establishment in the U.S. of an informal group consisting of certain Chinese together with their American friends (he did not mention the name of the group but stated that it included such people as Dr. Hu Shih,⁴⁶ Dr. Kan and himself) which had as its purpose the unification of all anti-Communist factions in China. He stated that telegrams had been sent to the Generalissimo, Acting President Li, Premier Yen Hsi-shan, and others, recommending agreement on the following three points: (1) that all groups in China opposing the Communists join together in carrying on resistance; (2) that a single plan of military action be devised and carried out under a unified leadership; and (3) that "something be done" to recapture the support and confidence of the Chinese people. Ambassador Koo added that replies had been received to their telegrams from all recipients indicating full agreement with the points

⁴⁶ Chinese Ambassador in the United States, 1938 to 1942.

outlined. He indicated that this was evidence of a continuing desire to resist the Communists and urged that the U.S. should therefore contribute its assistance to counter the spread of Communism in China.

I replied that the group referred to by Ambassador Koo had very laudable and high sounding purposes but that, as indicated by President Truman in his conversation with Dr. Kan, the U.S. was not interested in the establishment of committees or the declaration of principles but in action and deeds. The U.S., too, I stated, was sincerely and vitally concerned in checking the spread of Communism everywhere in the world, but retaining 300,000 troops inactive on Formosa did not appear to be the most effective way of resisting Communism in China. I assured Dr. Kan and Ambassador Koo that the U.S. stood ready to assist China, but that first China would have to give concrete evidence of its desire to help itself.

893.00/7-649

*Memorandum by Dr. Kan Chieh-hou, Personal Representative of the Acting President of China (Li)*⁴⁷

If the Communists are not to be allowed to over-run the whole of Asia, they must be stopped somewhere in the Continent. A line must therefore be drawn over which the Communists are not permitted to go. If we have a line of defense in China which we can hold and must hold against the Communist advance, is it necessary to search for another line further south in either Indo-China or in Burma? The Indo-Chinese and the Burmese cannot make better soldiers than the Chinese. Should the Chinese Communists succeed in taking possession of South China and West China, the repercussions in Indo-China and Burma would be so great that uprisings and guerillas would spread everywhere. Then nothing short of the active participation of American and British forces could cope with the situation.

We have two lines of defense in China, one in the Northwest and the other in the Southwest. The defense line in Northwest China (the line marked "A" on Map I⁴⁸) runs from Sian along the Lung-hai Railway to Pao-chi and then follows the highway to Han-chung. This line is garrisoned by the Mohammedan troops, estimated at about 150,000 men, by troops formerly belonging to Gen. Fu Tso-yi, about 80,000 men and Gen. Hu Tsung-nan's men, estimated at about 150,000 men. The fighting quality of both the Mohammedan troops and Fu's troops is well known. This defense line in Northwest China protects Sze-

⁴⁷ Handed by Kan Chieh-hou to the Secretary of State on July 1.

⁴⁸ Not printed.

chuan, the granary of Western China, and other Northwestern provinces.

The other defense line—in Southwest China—(line “B” on Map I) starts from Changsha, running across the southern part of Kiangsi, and following the border of Kwangtung. This defense line is garrisoned by Gen. Pai Chung-hsi’s 300,000 crack troops, together with a number of provincial army units in Hunan and Kwangtung.

In case we have to give up Changsha, there is an alternate defense line for line “B” on the map. Henyang, instead of Changsha, will be the starting point, but otherwise the line will be quite the same. However, we must be prepared for the worst. If we have to give up Canton, a city situated on flat terrain, the best line of defense would be one running southward from Henyang, with its back on the mountains of Kwangsi, to the southernmost tip of Kwangtung province where the port of Kwangchow is situated, as indicated in line “C” on Map I. The area behind these two defense lines contains more territory and population than the area which the Chinese held during the War of Resistance against the Japanese aggression 1937–1944. The loss of the coastal provinces in East China is serious but it is not the loss of the entire[ty] of China. We fought the Japanese with our base in this hinterland and we were able to hold up for many years.

Between the two lines of defense, one in the Northwest and the other in the Southwest, a wide gap seems to be open to the Communists, but geographically speaking, this gap is an impasse. Before the Communist[s] can get into the western provinces, they must break through either one of the two defense lines. They may, however, cross the Yangtze River around Shasi and try to traverse the mountainous regions in Western Honan. Prepared for that eventually, we have a strong cordon of troops on the south bank of the river (line “D” on Map I).

The question now is how we can be sure that these defense lines can be held. It is true that the troops who fought the Communists in Manchuria, in Central China, and along the lower Yangtze did not show a strong will to fight and, when they were defeated, the arms they had received through the military aid program were passed to the hands of the Communists. It must be made clear that those troops were controlled by an exclusive military clique, which, having outlived its usefulness and gone into decay, failed to give them good leadership and fair treatment. This does not apply to the troops now garrisoning the defense lines. They were pushed to the background during the fighting in Manchuria, in North China, in Central China, and along the Yangtze.

Up to now, General Pai Chung-hsi’s troops and the Mohammedan troops have not received any American equipment through the mili-

tary aid program. Yet General Pai was able to hold the Hupeh province against repeated Communist attacks. The Communists finally gave up further attempts to get into Hupeh. When the Communists crossed the lower Yangtze given up by the disintegrated forces under the control of the said military clique, General Pai's position in Hupeh became untenable and he had to withdraw his troops to Changsha. A few weeks ago the Communists crossed the Kan River in the Kiangsi province; General Pai's troops rushed to the scene and drove them back to the other side of the river (see Map II ⁴⁹).

A year ago the Mohammedan troops inflicted severe defeats on the Communists by cutting the rear of a Communist army heading for Szechuan along the Lung-hai Railway. Recently the Communists made a similar attempt and got as far as Wu-feng on the railway. The Mohammedan troops rushed down and drove them back to Sian. (See Map II)

We are paying our soldiers in silver dollars. Payment made in depreciated paper money was one of the main reasons for low morale of the fighting forces. We also need silver to stabilize our currency. If we can pay the farmers with silver dollars for their agricultural products, a political miracle will be performed, because the Communists have no silver and their paper money is depreciating as rapidly as ours. The silver dollars (20,000,000 pieces) now being coined in the mints in this country would be inadequate to meet with the situation. We propose to make use of a part of the ECA fund to purchase silver. We understand that there are about 90,000,000 dollars still unused in that fund. We are ready to discuss methods whereby possibilities of waste or misuse may be eliminated.

893.50 Recovery/8-2949

Memorandum of Conversation, by the Deputy Under Secretary of State (Rusk)

[WASHINGTON,] August 29, 1949.

Participants: Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen
Mr. Rusk, Deputy Under Secretary
Mr. Sprouse, CA

Dr. Kan called today by appointment to present, on instructions from Acting President Li Tsung-jen, an appeal for additional

⁴⁹ Not printed.

aid for China. He first expressed his general concurrence and that of the Acting President with the White Paper and pointed out that it did not in their opinion mean that the United States had washed its hands of China. He stressed that the Acting President was encouraged by the indication that the U.S. Government would continue to aid those democratic elements opposing communism in China. Dr. Kan then said that he had received a letter and a telegram from the Acting President in which the latter had instructed Dr. Kan to make a request along the following lines: (1) The U.S. Government should extend aid to China under the direction of a supervisory board and establish any conditions it might wish to govern the distribution of its economic and military assistance. The Chinese Government would welcome such supervision. (2) The Chinese Government would not consider as interference in Chinese internal affairs any action by the U.S. Government to aid local or regional groups or any supervision considered desirable by the U.S. Government. (3) The Acting President requested that China be designated by name in any military assistance program established for the Far East.

In reply to Mr. Rusk's query, Dr. Kan explained that the principal needs of the Chinese Government were small arms and ammunition and money with which to pay the troops. He described the effective resistance which General Pai Chung-hsi's troops were making against the Communist forces in south China, even though General Pai's armies were outnumbered, and said that this resistance had demonstrated the capability of the Chinese armies. He was bitter in his characterization of the Generalissimo and asserted that the latter had not made available to General Pai any of the arms and ammunition purchased under the \$125 million grants authorized by the China Aid Act⁵⁰ although he had transferred small amounts of old materiel from Formosa for armies under the control of the Acting President and General Pai.

Dr. Kan concluded that he did not wish to bother the Secretary but he would appreciate the Acting President's request for assistance being brought to the attention of the Secretary. Mr. Rusk gave Dr. Kan an explanation of the Department's views regarding the military assistance legislation under consideration in the Congress and assured him that Acting President Li's request would be brought to the Secretary's attention.

D[EAN] R[USK]

⁵⁰ For correspondence on this subject, see *Foreign Relations*, 1948, vol. VIII, pp. 73 ff., and *ante*, pp. 610 ff., *passim*.

893.51/9-1649

*Memorandum of Conversation, by the Assistant Chief of the Division
of Chinese Affairs (Freeman)*

[WASHINGTON,] September 16, 1949.

Participants: Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen
Mr. Rusk, Deputy Under Secretary
Mr. Butterworth, FE
Mr. Freeman, CA

Dr. Kan Chieh-hou called this afternoon at his request and launched immediately and with vigor into the subject which he had in mind. He referred first to Senator Connally's statement⁵¹ with regard to the Generalissimo's having "absconded" with \$138 million of the Chinese Government's foreign exchange and stated that he had received a written request from Senator Knowland⁵² for the facts in the case. Dr. Kan indicated that his reply to Senator Knowland had been somewhat non-committal and that he had referred to Ambassador Koo's statement⁵³ in reply to Senator Connally. He added, in typical Chinese fashion, that he could not very well do otherwise than to support Ambassador Koo's remarks.

Dr. Kan continued that he had now received a telegram from Acting President Li giving the "facts" in this matter and showing why Li had up to now been unable to take effective action, institute reforms, clean house, etc. The sole reason for Li's inaction, according to Kan, was lack of control over the purse strings of the National Government. Kan stated that at the time that Li was designated as Acting President, the total National Government financial resources—both at home and abroad—amounted to approximately US\$270 million. At the outset, however, none of this foreign exchange was available for independent use by Li, he said. At the time⁵⁴ of the introduction of the new silver certificates in south China, Kan stated, Li made a strong plea to the Generalissimo for silver to back the currency and maintain free convertibility. As a result of this request, Kan stated that Li was permitted to purchase 20 million ounces of silver from Mexico using funds of the Central Bank and the Bank of China on deposit in the U.S. Kan stated that the Generalissimo also agreed to furnish from Formosa C\$15 million per month in silver to offset government ex-

⁵¹ Chairman Tom Connally of the Senate Foreign Relations Committee on September 7 made a speech on the floor of the Senate, *Congressional Record*, vol. 95, pt. 10, p. 12640.

⁵² William F. Knowland, of California.

⁵³ September 8, *New York Times*, September 9, 1949, p. 10.

⁵⁴ In July.

penditures. Li indicated, however, that National Government expenditures in south China were now averaging from C\$45 to 60 million per month; that by the middle or end of October all silver reserves and other funds available to Li would be exhausted; that the C\$15 million per month from Chiang would obviously be inadequate; and that, unless additional funds were received by that time from some outside source, Li would be forced to turn over the government to the Generalissimo.

At this point Kan again emphasized the impotency of Li in his present position: (1) Without funds he can take no independent action unless approved by the Generalissimo, and (2) no one will obey Li in crossing the Generalissimo because they realize that he has no funds to back up his orders. Kan stressed that Li, as Acting President and Commander-in-Chief of Chinese forces, has the necessary legal authority and titular power to carry out extensive changes, but he reiterated that such authority is valueless without the requisite funds.

Kan stated that the objectives of the U.S. and Acting President Li were identical in one respect: They were both desirous of getting rid of the Generalissimo. Given the necessary funds, Kan continued, Li would immediately clean south China of the CC Clique, fire incompetent military and civilian personnel, install "liberals", institute radical reforms, and establish effective resistance to the Communists. In the U.S., Kan asserted, Li would remove Ambassador Koo, together with his Military and Naval Attachés, principal UN⁵⁵ personnel, and, he implied, most of the high Chinese officials in this country. Kan also made a point of stating that Li would take such an opportunity to wipe out the pro-Generalissimo and anti-State Department lobbies and pressure groups in the U.S. which were threatening the continuation of good Sino-American relations and on which the Generalissimo was presently spending large sums.

Kan then referred to the imminent passage of the discretionary \$75 million appropriation for the Far East under MAP⁵⁶ and stated that this was the opportunity to take the action Li so urgently needed. He urged that, as soon as the legislation was passed,⁵⁷ a commission of three or five Americans be sent to China with complete authority to spend money where it could best be used, whether in paying silver to troops, supplying small arms and ammunition, supporting the currency, etc. Kan stated flatly that Li did not desire to handle the money personally and that he would have no objection to controllers or even if the National Government itself were not given the funds for the armies but support given directly to individual armies or groups having the best

⁵⁵ United Nations.

⁵⁶ Military Assistance Program.

⁵⁷ Mutual Defense Assistance Act of 1949, approved October 6; 63 Stat. 714.

promise of resisting the Communists. Kan also indicated that, if such aid were forthcoming, Li would "take over" Formosa, remove General Chen Cheng,⁵⁸ install General Sun Li-jen⁵⁹ as governor, and leave the Generalissimo powerless. Questioned as to how this could be accomplished, Dr. Kan was more than vague. In this connection, Kan stated that the U.S., through negative action and failure so far to assist Li, was actually supporting the Generalissimo and keeping Li in an intolerable and untenable position. The passage of the \$75 million legislation, he indicated, would give the U.S. an opportunity to make amends and save the situation.

In response to Mr. Rusk's question whether such assistance would enable the Nationalists to hold Canton, Kan stated that Li and General Pai Chung-hsi were in a position to hold out without outside assistance for an additional three months. (This statement was in direct conflict with his previous indication that Li would be forced to turn over the government to the Generalissimo by the end of October if outside aid is not forthcoming.) Kan asserted, however, that if U.S. assistance could be provided which would enable Li and Pai to hold out for six months, the Chinese Communist regime would collapse from internal pressures. He stated that he had received information from China to the effect that the large-scale requisitioning of crops by the Communists had left the farmers without sufficient means to buy necessary fertilizer and seed; also that the drafting of manpower from the countryside had further reduced the capacity of the peasants to produce the necessary foodstuffs. Kan predicted that the result would be a wide-scale peasant uprising—if the National Government could continue to hold out for another six months. He pleaded, therefore, that the U.S. assist Li as a six-month gamble and suggested that if the results were not satisfactory at the end of that period the U.S. might wash its hands of China.

Mr. Butterworth inquired what the saving to the National Government would be if its support of lobbies and pressure groups in the U.S. were removed. Kan replied with appropriate gestures that the saving would be "millions", and added that Li was planning to cancel the passports of all undesirable Chinese in the U.S. and thus "force them to return to China".

Dr. Kan was characteristically vague in replying to Mr. Freeman's question as to how the supplying of additional funds to Li would enable him to gain control of Formosa where the Generalissimo already has adequate funds and forces for a prolonged stand. Kan stated that Li had been all prepared to appoint Sun Li-jen as governor of Formosa

⁵⁸ Governor of Taiwan (Formosa).

⁵⁹ Commander of Taiwan Defense Headquarters.

when the Communists crossed the Yangtze, but that the resultant chaos and moving of the capital to Canton had made such a shift impossible. He added, however, that Sun was absolutely loyal to Li and indicated without further explanation that there would be no difficulty in gaining control of Formosa if Li had the requisite financial backing.

Kan concluded the conversation with a dramatic plea that the U.S. "do something" immediately; that plans be drawn up forthwith along the lines suggested by Li to utilize the \$75 million appropriation as soon as it becomes law; and that time was of the essence if Li is not to be forced to capitulate to the Generalissimo.

Mr. Rusk and Mr. Butterworth were non-committal throughout in their responses to Dr. Kan and did not give him cause for optimism that his proposal would be acted upon favorably.

893.50 Recovery/9-3049

Dr. Kan Chieh-hou, Personal Representative of the Acting President of China (Li), to President Truman

NEW YORK, September 30, 1949.

MY DEAR MR. PRESIDENT: It is with gratification that I have learned of your signing of the bill providing for assistance to European and Asiatic countries,⁶⁰ which was recently passed by the United States Congress and which includes the appropriation of \$75,000,000, proposed by Mr. Tom Connally, for aid to China. On behalf of the Acting President of the Republic of China, I wish to extend to you my warm thanks for this renewed expression of friendship for my country, which, I am sure, will go a long way toward bolstering the morale of both our civilian population and armed forces.

In my talks with officials of the Departments of State and National Defence, I have invariably stressed the necessity for careful supervision over the use made of whatever assistance may be forthcoming from your Government and I have clearly indicated that the Chinese Government would have no objection to this supervision being left in the hands of the United States Government. I believe that the provision for the expenditure of the new appropriation at your discretion will accrue to the common interest of our two countries.

In view of the critical military situation in China at the moment, of which Your Excellency is doubtless fully aware, I should be remiss in my duty if I did not ask for the immediate expenditure of the funds which have just been placed at your disposal. In the opinion of the Chinese Government, these funds should be made available partly

⁶⁰ The bill was signed October 6.

for the purchase of silver and partly for the procurement of light arms and ammunition.

As I have acquainted both Mr. Dean Rusk and Mr. Butterworth⁶¹ of the Department of State with all the details of how best to utilize the new appropriation, I shall refrain from burdening you with the same.⁶²

With highest esteem [etc.]

KAN CHIEH-HOU

893.50 Recovery/9-3049

President Truman to Dr. Kan Chieh-hou, Personal Representative of the Acting President of China (Li)

WASHINGTON, October 5, 1949.

DEAR MR. KAN: Thanks very much for your letter of September thirtieth. I appreciate very much your interest in the matter referred to and I am glad you have discussed it with Mr. Rusk and Mr. Butterworth.

Sincerely yours,

HARRY S. TRUMAN

893.00/10-1549

*Dr. Kan Chieh-hou, Personal Representative of the Acting President of China, to President Truman*⁶³

NEW YORK, October 12, 1949.

MY DEAR MR. PRESIDENT: Your kind reply of October 5th is acknowledged with thanks.

I have received instructions from Acting President Li to inform you of the following important developments in the situation in China:

The financial resources at the disposal of the Government having been completely exhausted, the Government has reached the stage where it is unable to defray any of its civilian and military expenditures. At the same time, the suggestion has emanated from certain quarters that the mainland should entirely be abandoned and that all efforts should be concentrated on the defence of Formosa. These fac-

⁶¹ Mr. Butterworth was designated Assistant Secretary of State for Far Eastern Affairs on September 29.

⁶² Dr. Kan transmitted copies of this letter to the Secretary of State and to Assistant Secretary of State Butterworth, asking their support for his request to President Truman. In their replies on October 17, the Secretary and Mr. Butterworth informed Dr. Kan that appropriate agencies of the Government were studying how to make the best use of the funds available.

⁶³ Copy transmitted to the Secretary of State on October 15 by President Truman.

tors account for the recent military withdrawals from our original positions in Central and South China.

It is General Li's desire that the mainland must not be abandoned, and that a line of defence covering the southern part of Kuangtung Province, including Kuangchowwan, and the whole of Kuangsi Province, must be held, so as to serve as a bastion against the infiltration of the Communists into the territories of China's immediate neighbors, Indo-China, Burma and Thailand.

In order to carry out this plan, the Chinese Government stands in urgent need of the wherewithal to pay its troops. In the near future, it will also require a given quantity of light arms and ammunition. For these purposes, I am instructed to make an urgent appeal to you for the immediate allocation of the funds already voted for by Congress⁶⁴ and for your immediate release of these funds.

With highest esteem [etc.]

KAN CHIEH-HOU

893.24/10-1349

Dr. Kan Chieh-hou, Personal Representative of the Acting President of China, to the Secretary of State

NEW YORK, October 13, 1949.

MY DEAR MR. SECRETARY: The Chinese Government has noted with gratitude your firm stand towards the communists in China. The statement of your Department⁶⁵ to the effect that the United States Government will not take any action in regard to recognition of the communist regime until Congress is consulted, and your rejection of communist coercion by muzzling the American press as well as your attitude towards the Isbrandtsen Steamship Company⁶⁶ have our heartfelt approval.

Herewith I quote to you a passage of a letter received from Mr. Truman in reply to mine of September 30, a copy of which had been sent to you with my previous letter: "Thanks very much for your letter of September thirtieth. I appreciate very much your interest in the matter referred to and I am glad you have discussed it with Mr. Rusk and Mr. Butterworth."

In the meantime the situation in China has become most critical, as explained in my second letter to the President,⁶⁷ a copy of which I

⁶⁴ Funds were appropriated under Public Law 430, approved October 28; 63 Stat. 973.

⁶⁵ Made on October 3 by Michael J. McDermott, Special Assistant to the Secretary of State for Press Relations, at a press and radio news conference.

⁶⁶ For correspondence on this subject, see pp. 1098 ff., *passim*.

⁶⁷ *Supra*.

enclose herewith, which will acquaint you with the latest developments in my country.

China is now called upon to decide whether she should make a last stand on the continent as a permanent bulwark against world communism or as a rearguard force fighting a dilatory war to give the rest of Asia, namely, Indo-China, Thailand, Burma and India time to prepare for their defence. Should the Chinese forces be withdrawn from the mainland of Asia, the communists will find themselves almost overnight face to face with weak, unprepared nations in the southwest of Asia. General Pai Chung-hsi's troops now stand in the door-way to these countries. He is determined to fight to the last, but he has only one month's food supply for his men and arms and ammunition are running short.

I cannot lay further emphasis to this desperate situation, which requires your immediate attention. I rely on you for the immediate use of the fund, placed at the disposal of the President.

With highest esteem [etc.]

KAN CHIEH-HOU

893.24/10-1749

Dr. Kan Chieh-hou, the Personal Representative of the Acting President of China, to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

NEW YORK, October 17, 1949.

MY DEAR MR. BUTTERWORTH: Since the despatch of my letter of October 13 to you,⁶⁸ I have received additional information from China.

The recent withdrawal from Hengyang and Canton has been due, not to the weakening of the strength of resistance on the part of the Nationalist forces, as is commonly supposed to be the case, but to unforeseen circumstances, which I feel constrained, as a friend, to point out to you without reserve so as to enable you to understand fully the actual situation in China.

Generalissimo Chiang Kai-shek, realizing that he would not be able to obtain control of any of the assistance provided by the new bill recently adopted by Congress, was determined not to let the aid coming from your Government fall into the hands of any other person. During his last visit to Canton, he expressed his disapproval of the plan to hold that city with the combined forces of Kwangtung and Kwangsi. At the same time, he ceased to pay to the Government the

⁶⁸ Not printed; it was almost identical to Dr. Kan's letter of October 13 to the Secretary of State, *supra*.

promised monthly quotas from the funds hoarded up in Formosa. Under such circumstances, both Hangyang and Canton had to be abandoned.

The crucial issue in China to-day is, therefore, the preservation of the crack force of 200,000 men under General Pai Chung-hsi and the troops retreating from Kwangtung into Kwangsi. These troops not only constitute the last bulwark against the Communists but also can form the nucleus of a new army for the eventual offensive. General Pai is convinced that, if he could have 400,000 men with effective equipment, he could commence a sweeping offensive which would turn the tide of war.

The sea-port of Kwangchowwan is still open to the outside world, and the land route from Indo-China used to good advantage during the Sino-Japanese War can be made use of again. If anything is to be done for China and the cause of democracy before it is too late, now is the time.

Any further hesitancy and delay on the part of your Government would play into the hands of the Generalissimo. It would automatically eliminate all other political and military leaders who would otherwise be qualified to guide the destinies of a future democratic China. And thus, his would be the only remaining political and military power left in China. This, I presume, is not what you wish to see in China.

Yours sincerely,

KAN CHIEH-HOU

893.00/10-2349

Dr. Kan Chieh-hou, Personal Representative of the Acting President of China, to the Secretary of State

NEW YORK, October 23, 1949.

DEAR MR. SECRETARY: Please accept my thanks for your reply dated October 17.⁶⁹

Since you were good enough to express your readiness to give the most careful consideration to the views of my Government regarding the use of the funds provided in Section 303 of the National [*Mutual*] Defense Assistance Act of 1949,⁷⁰ I venture to bring to your attention the following points which have been uppermost in the thinking of my Government recently:

1. In order to enable General Pai Chung-hsi to cope with the military situation effectively, it is imperative that he should immediately

⁶⁹ See footnote 62, p. 722.

⁷⁰ 63 Stat. 716.

be provided with a portion of the above-mentioned funds to pay his troops. Arrangements can be made with banks in Hongkong to convert these funds into the locally circulated currency and to remit them to General Pai's army.

2. As to arms and ammunition, it is claimed in certain quarters that the present situation in China makes it difficult for the supplies to reach the troops in need of them. To obviate this difficulty, the Chinese Government is prepared to accept joint control with the United States Government over the island of Hainan and to use it as a base of supply. The military supplies received from your Government will remain under the control of the authorities of your Government to be stationed on the island, who will also decide where, when and how these supplies are to be made use of.

Although the situation in China still appears to be rather discouraging, in one respect at least the picture is much more simplified than heretofore. It seems clear that the Generalissimo will henceforth concentrate his attention on Formosa and that Acting President Li will be in a position to exercise complete control on the mainland.

It is hoped that you will give your favorable consideration to the plans envisaged above and put them into immediate execution.

Yours sincerely,

KAN CHIEH-HOU

893.00/10-3049

Dr. Kan Chieh-hou, Personal Representative of the Acting President of China, to the Secretary of State

NEW YORK, October 30, 1949.

DEAR MR. SECRETARY: Since I wrote you on October 23, I have received the perturbing report that a plan is being suggested to the United States Government to write off completely not only China but the whole of Southeast Asia except India, Australia and the Philippines. The same source informs me that, while India will continue to receive the moral and material assistance of Great Britain, the United States will be responsible for giving support to Australia and the Philippines.

I have thought the matter over very carefully and come to the conclusion that I must not fail to let you have my reactions to the plan, because, if it were adopted by your Government, it would seriously affect not only the immediate destiny of my country but the future of our relations with the United States and the other democratic countries.

It will be recalled that, during World War II, it was the persevering effort of the Chinese people that held at bay more than half a million

Japanese troops, thus resulting in the preservation of Australia and India and the ultimate victory of the democratic countries. If these countries were to abandon China and her neighbors in Southeast Asia today, it would mean that two million Communist troops would be let loose in Asia and would be left free to fall upon any area to be defended under the suggested plan. It is needless to say that this would add immeasurably to the difficulties now confronting the democratic countries in combatting the spread of Communism.

Even if the contemplated step were to be justified on the score of expediency, the repercussions which it would indubitably have on the future relations of the countries thus let down and the Western democracies would be most unfortunate. In this connection, I cannot help recalling with regret that such forces as those of General Pai Chung-hsi, whose tested strength is well-known, were prevented from accomplishing what they could have done even with a trickle of timely assistance. As an expediency, the plan would naturally envisage the final subduing of the Communists and the return of the anti-Communist elements to their own countries. How keen would their disappointment then be at the failure of their friends to come to their assistance at the most critical moment and what would remain of the ties of friendship which at present subsist between the two parties?

Please forgive me for my frankness in approaching the subject. While I do not suspect that such an ill-considered plan would meet with your Government's approval, in view of the alarming nature of the report I feel that I should acquaint you with my views in full, in the hope that the solidarity of the anti-Communist front may be strengthened.

Yours sincerely,

KAN CHIEH-HOU

893.24/10-1349

The Secretary of State to Dr. Kan Chieh-hou, Personal Representative of the Acting President of China

WASHINGTON, November 2, 1949.

MY DEAR DR. KAN: I am grateful for the frank expression of your views respecting the present situation in China contained in your letters of October 13 and October 23, 1949. I assure you again that your views and those of your Government are most welcome and that they will be given the most careful consideration.

Sincerely yours,

DEAN ACHESON

893.00/10-3049

*The Deputy Under Secretary of State (Rusk) to Dr. Kan Chieh-hou,
Personal Representative of the Acting President of China*

WASHINGTON, November 2, 1949.

MY DEAR MR. KAN: I wish to acknowledge your letter of October 30 regarding the situation in the Far East. We cannot, of course, respond to all of the many rumors which circulate these days on the subject of China. This particular one is without foundation.

Sincerely yours,

DEAN RUSK

FINANCIAL RELATIONS BETWEEN THE UNITED STATES
AND CHINA: ¹ CHINESE REQUESTS FOR ASSISTANCE
IN FISCAL MATTERS ²

893.515/1-449

The Ambassador in China (Stuart) to the Secretary of State ³

No. 6

NANKING, January 4, 1949.

[Received January 14.]

SIR: I have the honor to refer to the progress of inflation in China during the past twelve months and to describe in non-technical narrative certain of its financial aspects.

On the first of January, 1948 the Chinese National Currency was quoted on Shanghai's black market at about 140,000 to US\$1.00. From then on its slide was uninterrupted but with accelerated momentum until August 19 when the new currency unit, the Gold Yuan, was introduced. Under the Currency Measure of that date the CNC was converted into GY at the rate of 3,000,000 to 1 GY. The GY itself was established at a parity of 4 GY to US\$1.00. The conversion rate into US dollars accordingly was 12,000,000 to 1, the figure which approximated the black market rate on that date in Shanghai. It was, however, somewhat lower than the black market rate then prevailing for US dollars in North China and considerably higher than the going rate in South China.

During the Spring commodity prices had accompanied or slightly preceded the rise of the US dollar in terms of CNC in the black market. Adjustments of the open market rate on which legal exports and resultant dollar earnings depended were infrequent and inadequate. In consequence total declared exports averaged during the first six months of the year approximately US\$15,000,000 a month, while inward remittances almost ceased. Import licenses were charily issued, and inbound shipments were further reduced by a flourishing smuggler's trade via Hong Kong.

¹ Continued from *Foreign Relations*, 1948, vol. VIII, pp. 601 ff.

² For correspondence on urgent requests by the Chinese Government for a program of broad economic assistance, see pp. 671 ff.; for correspondence on the mission to the United States of the Personal Representative of the Acting President of China to obtain moral support, financial assistance, and military aid and advice, see pp. 699 ff.

³ Drafted by the Counselor of Embassy (Merchant).

In May, under pressure of the business community, Chinese as well as foreign, a partial "link" system was put in effect known as the "Exchange Surrender Certificate Plan". Under this scheme the exporter sold his foreign exchange proceeds to the Central Bank, which issued him a certificate which he could sell on the open market to importers who were required to have such a certificate in order to buy their foreign exchange. The theory was reasonable, but its practice was not. The market was manipulated in the sense that a drastic further restriction on issuance of import licenses so reduced the demand for the certificates that they fell to a level little more than half the black market rate for dollars. Moreover the Central Bank itself entered the market from time to time, buying and selling certificates. The result produced the curious economic anomaly whereby exports were controlled in fact by the volume of imports. This unusual situation still further increased the resemblance of the Chinese economy to "Alice in Wonderland".

By mid-June, exports were at a standstill, substantially the full load of essential imports was expected to be assumed by the ECA⁴ program then getting under way, and the decline in the value of CNC had reached the point where sheer physical inconvenience entered the conduct of transactions in a circulating medium which required practically a bushel basketful to buy a newspaper.

It was clear that the Government must do something, but their course of action was not unveiled until August 19. In brief, the solution then presented was the conversion of CNC into a new currency, the Gold Yuan, tied to the US dollar in the ratio of 4 to 1 and backed by a reserve, 40 percent of which constituted gold, silver and hard currencies, and 60 percent Government-owned shares in state enterprises. All gold, silver and foreign currency held in China was called in. Deposits abroad were similarly slated for transfer to the Government. Finally, all prices and wages were frozen at the level of August 19.

The principal authorship of this plan has been credibly attributed to Wong Wen-hao, the Prime Minister; Wang Yung-wu, Finance Minister; and Hsu Po-yuan, Vice Minister of Finance. O. K. Yui, Governor of Central Bank, played a slight though less clearcut role of parentage.

The preparation of the plan, particularly the currency reform, was a closely and successfully guarded secret. One vital change is believed to have taken place in the scheme only a few days before its promulgation. The facts appear to be that the Generalissimo's⁵ approval of

⁴ Economic Cooperation Administration.

⁵ President Chiang Kai-shek.

the plan was required, since it involved trusteeing China's gold stock, amounting to something under three million ounces, over which the Generalissimo himself has long exercised a close and jealous personal control. The original scheme put up to the Generalissimo included the daring feature of making the Gold Yuan internally convertible into gold at a fixed rate. This Nineteenth Century economic solution, while pleasing to the ghosts of classical economists, beyond question would have caused John Maynard Keynes⁶ to rotate rapidly in his grave. It did, however, have the beauty of audacity and just conceivably might have sufficiently engaged the confidence of the Chinese people for long enough noticeably to extend the breathing spell for the Government which the currency reform was designed to achieve. Apparently the Generalissimo, with more insight into Chinese economic realism than respect for the classical school of economists, struck this feature of the currency reform from the measure presented to him.

It is noteworthy that less than three months later this original feature was to be reintroduced, at a time when the further disintegration of China's currency and economy was even more apparent. The run that then followed on the Government's gold stock was at that later point easily predictable. The irony of it, however, was that the people who had faithfully turned in their gold as required after August 19 were afforded the doubtful privilege of re-purchasing it from the Central Bank at ten times the redemption price in Gold Yuan and under circumstances which favored the "Yellow Ox" gangs rather than the original owners.

The August 19th reforms were accompanied by devout declarations of an intent to balance the budget by reducing governmental expenses and increasing taxes. The facts of the situation were apparent to anyone who cared to look. The budget was hopelessly unbalanced and, in all fairness, could not reasonably be expected to attain balance, so long as the civil war continued. However, a new currency, a sense of patriotic fervor which was exploited, and early evidence of a resolution on the part of the Government rigidly to enforce the measures, particularly in Shanghai, combined to give the Government a brief breathing space. It was clear, however, at the outset, to any objective observer, that during that breathing space three separate actions, in the military and political fields rather than fiscal, had to be achieved in order to accomplish any enduring result. The first was some immediate, tangible evidence of a reduction in the Government's deficit. The second was an important military victory by the Nationalist forces in the field. Third was the execution of an exemplary number of

⁶ British economist, advocate of managed currency.

individuals above the rank of colonel. None of these conditions was met, and by the middle of September one could predict with safety that the currency and related economic reform measures were a failure.

Moreover, intelligent and flexible administration of this ambitious economic reform program was required. Coming as the reform did, with a secrecy which prevented advance speculative adjustments, the economy of China was frozen overnight. In so serious an inflationary spiral a host of major and minor maladjustments exist at any given moment. All these were frozen on August 19 into the economic fabric of that part of China which has adopted or absorbed any semblance of a finance-capitalist society. Costs, for example, were out of line with selling prices in some important industries. The wide disparity in price levels between North and South China was another case in point.

Chinese economists and many politicians saw the need for discriminating adjustments. They were not forthcoming on any significant scale, primarily because Gen. Chiang Ching-kuo, the Generalissimo's son, was placed in charge of enforcement in Shanghai, the financial capital. He attacked enforcement more as a social crusade than as a problem needing economic sophistication if the program was to be given its best hope of success. And he was backed up by his father in every dispute with bankers, business men, economists and even the Cabinet. One month after the introduction of the Gold Yuan, time was running out because no effective, constructive use had been made of the time so expensively purchased.

Nevertheless, the value of the Gold Yuan in the black market had sagged by September 20 only 10 percent. Official prices were still prevailing, but goods were increasingly scarce, as buyers' sprees, taking advantage of fixed prices, cleaned out the shelves. Other stocks went under ground or into a then cautious black market. Moreover, the full scale of the Communist offensive in Manchuria and in Shantung was unleashed.

The economic head of steam had in the short space of four or five weeks built up to a pressure which promised an early explosion. Semi-terroristic enforcement measures in Shanghai, reminiscent of a modern police state, were losing their effectiveness as the sole prop of the currency.

Within a month the black market was in full swing both in commodities and currencies, and by the middle of October the Gold Yuan had lost 80 percent of its value in terms of the US dollar.

On November 1 the Government recognized and accepted the inevitable. The Premier took personal responsibility for the failure and

resigned. Price and wage ceilings were removed. The only exception to the removal of price controls was rice, and the inevitable consequence of this short-sighted action was the failure of rice to move into the cities, with attendant shortages and food riots.

By the end of November the wheel had come full cycle in the monetary field. The ownership of, but not transactions in, gold, silver and foreign currency was once more made legal. Gold and silver were placed on sale for the people. The net result of this fiasco was to legitimize the position of the rich who had never turned in their hoards and to pauperize the fledgling middle class which had faithfully turned in their gold and then were forced to compete with "Yellow Oxen" to buy it back at ten times the price. By this brilliant stroke the Government rid itself of any vestige of support from those who had the most to fear from Communism, being neither rich enough to hope to buy acceptable terms from a new regime nor poor enough to feel that a Communist government could only change their status for the better. The year end witnessed two interesting economic developments. First was the introduction in late November of the Foreign Exchange Clearance Certificate plan. This was really a revival of the discredited surrender certificate plan of May, which had been officially buried on August 19. Secondly, the massive Communist victories of November had a curious but innately logical effect on those individuals who had earlier sought to protect themselves against inflation by hoarding of commodities. Fear that these hoards would be discovered and confiscated by the Communists when they took over led to large scale dumping and conversion of goods held by speculators into Gold Yuan. A companion fear, however, was that the Communists might deliberately penalize holders of American dollars just because they were American. The combination of these two fears produced a temporary plateau in commodity prices and a relative decline in the purchasing power of the US dollar.

The forces at work, however, in the form of steady pumping of Gold Yuan into the circulatory system by the printing press and sober second thought, not only on the basic stability of the US dollar, but also on the dollar needs of the Communists to finance essential imports, soon set the spiral in motion again. All except rice, which responded sensibly to a freed economy by moving into the cities and going down in terms of US dollars in faithful reflection of a bumper crop just harvested.

Converting Gold Yuan into CNC, at the first of the year it required 150,000 CNC to buy one US dollar; by the year's end it required the equivalent of over 400 million CNC.

Respectfully yours,

For the Ambassador:
LIVINGSTON T. MERCHANT
Counselor of Embassy

893.5151/1-649 : Airgram

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

SHANGHAI, January 6, 1949.

[Received January 10—10:11 a. m.]

A-26. Inform Commerce. Free public sale of gold bullion and silver dollars resumed Jan. 5th, following suspension on Dec. 24 upon death 7 persons and 105 injured in Shanghai gold buying panic on Dec. 23 (See ConGen's telegram 2889, Dec. 24⁷ to Department). Revised regulations introduced designed to prevent future mob disorders. Gold selling localities in Shanghai increased from 4 to 8 banks.

Price of gold to public remains unchanged at GY 1,000 per ounce (US\$50 based on official exchange rate of GY 20 to US\$1.) plus previously introduced deposit of GY 1,000 (refundable after one year). New regulations now provide for additional payment of so-called "equalizing fund" based on official overseas remittance rate in order reduce black market operations in public gold, and for continued purpose of stabilizing market by recalling idle capital out of money market in Government's last measure efforts to stem inflation and rising commodity prices. Public will be permitted to purchase one ounce gold each 3 months' period.

Selling price of gold to public is now computed at US\$50 per ounce multiplied by overseas remittance rate. If remittance rate is quoted at GY 120 to US\$1, computation is GY 6,000 per ounce of gold. Equalizing fund payment in this case is GY 4,000. New regulations require the deposit and price and equalizing fund to be handed over to the banks on same day application forms are issued. Banks will appoint a date, after a 7-day period, for collection of the gold purchased.

Equalizing fund will be fixed daily by committee consisting of Vice-Minister of Finance, Deputy Governor of Central Bank and General Manager of Bank of China.

It is significant that the formula of multiplying the ounce price of gold (US\$50) by the overseas remittance rate in determining the public price of gold was a realistic attempt to bridge the wide gap between the black market price and the publicly sold price of gold. Principal contributing factor to the economic failure of initial public sale of gold and accompanying fatal mob disorders was the black market (GY 6,000) versus the public gold price of GY 2,000 per ounce. Obviously much publicly purchased gold quickly found its way into the black market especially through the media of organized gangs, thereby completely defeating the Government's anti-inflation motive [*move?*] of tightening the local market.

⁷ Not printed.

The formula adopted on Jan. 5th to equalize the black market and public price of gold already appears doomed to early failure, as on Jan. 6th black market gold price quickly advanced to GY 8,000 per ounce. Some slight official retaliation became evident when the authorities cautiously advanced the overseas remittance rate to GY 130.

CABOT

893.515/1-849 : Telegram

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

SHANGHAI, January 8, 1949—8 a. m.

[Received January 8—12:49 a. m.]

64. ConGen informed by dependable foreign source in Chinese Customs [that] Government recently shipped on customs vessels 3 large consignments gold bars; 1 from Shanghai to Keelung; 1 from Shanghai to Amoy and 1 from Kowloon to Amoy. First shipment approximately 96 tons, second around 90 tons and third somewhat smaller. Last 2 shipments made this week.

Amoy may be only staging point en route Taiwan or may be under consideration as strong point until suitability Taiwan as seat of Government can be appraised more accurately. Shipment gold out of Canton area may be significant as pointing to lack intention move Government there. Roughly calculated aggregate value three gold shipments must be at least \$200 million. All three shipments reported uninsured.

Sent Department 64, repeated Nanking 51, Canton 4, Hong Kong 6.

CABOT

893.515/1-1849 : Telegram

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

SHANGHAI, January 18, 1949.

[Received January 18—1:41 a. m.]

148. Reference ConGen airgram A-26, January 6. Government over weekend suspended sales of gold bullion which had totalled 450,000 ounces since late November and yesterday announced plans for US 100 million dollar bond issue to be backed by 2 million ounces gold which reserve to be held outside of China proper and perhaps with foreign banks participating as trustees. Public reaction not enthusiastic although feature of redemption date to be determined by lottery may have appeal. Press release containing basic outline of plan follows by airgram.⁸

Sent Department 148, repeated Nanking 115.

CABOT

⁸ No. 57, not printed.

898.5151/2-149 : Telegram

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

SHANGHAI, February 1, 1949—1 p. m.

[Received February 1—7:41 a. m.]

341. Unconfirmed rumor but coming from reliable source indicates that Central Bank was ordered by the Minister of Finance⁹ to release unlimited gold yuan currency to purchase commodities through large Chinese firms and Central Trust for shipment to southern ports. Purpose is to keep commodities out of hands of Communists and leave them gold yuan currency. Result locally has been an increase of local prices from 200 to 300 percent during 3-day Chinese New Year holiday. Gold yuan currency January 28 quoted at 320 to 1 US; quote today is 700 to 1 and gold bars advanced from gold yuan 15,000 per ounce to gold yuan 43,000 during same period.

Sent Department 341, repeated Nanking 260.

CABOT

898.5151/2-1549 : Telegram

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

NANKING, February 15, 1949—10 a. m.

[Received February 15—3:41 a. m.]

391. Inflation continues spiral with US dollar ranging over 1500 to 1 in Nanking-Shanghai. Preoccupation Government with peace efforts and dispersal Ministries directly concerned have resulted in total absence any coherent effort to ameliorate problem. With Acting President¹⁰ in Nanking, President Executive Yuan¹¹ in Canton, Minister of Finance and Staff aboard ship anchored in river off Shanghai, only Governor S. Y. Liu and Central Bank staff remain doing business at original Shanghai stand.

We can foresee no likely change coming weeks in this situation whereby effective concentrated attention by Government will be devoted to Chinese fiscal and economic problems. Accordingly prospect is for continued rise in prices, diminution foreign trade, stagnation local production and decline in value GY in terms of gold, silver and hard currencies.

Sent Department, repeated Shanghai 182.

STUART

⁹ Hsu Kan.¹⁰ Li Tsung-jen.¹¹ Sun Fo.

893.5151/2-1549 : Telegram

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

SHANGHAI, February 15, 1949—6 p. m.

[Received February 15—8:46 a. m.]

550. For Treasury from Parker.¹² At meeting this morning with Griffin,¹³ ECA and myself, Finance Minister Hsu accompanied by S. Y. Liu, governor Central Bank, and K. C. Wu, Mayor Shanghai, discussed proposal new sweeping monetary and financial reforms to be supported by introduction silver currency. Proposal requires 30 million silver dollars per month to be introduced circulation by Central Government as pay troops and government workers. Suggested GY (gold yuan) note circulation be continued to fluctuating rate to silver dollars. Chinese Government now has on hand sufficient coin and bars silver for their estimate of first month's requirements, but want assurance of availability of supply sufficient for 4 months before plan is undertaken. Meeting today was for purpose of requesting exploration of possibility of loan from the US Government of 100 million ounces silver or sufficient dollars to purchase silver on open market. Group apparently undecided whether request loan from stabilization fund, Export-Import Bank or RFC.¹⁴

Chinese Government representatives Washington not informed this proposal but mission will proceed if any assurance given that US would entertain negotiations for silver loan.

Additional economic reforms as now being tentatively considered include:

1. End of all restrictions on exports from China except requirement that exporters sell 25 per cent foreign exchange proceed to Central Bank at "realistic rate".¹⁵

2. End import restrictions except "luxuries", with full freedom to use private foreign exchange resources.

3. Elimination restrictions on local dealing in gold and foreign exchange.

4. Government to sell gold for premium price with payment US dollars 35 per ounce with balance in GY at black market rate.

In addition government proposes reduction in number of civil workers and military expenditures (by reducing paper armies to following approximate actual effectives) as means reducing budget out-

¹² Paul C. Parker, Acting Treasury Representative in China.

¹³ Robert A. Griffin, Deputy Chief of the ECA China Mission.

¹⁴ Reconstruction Finance Corporation.

¹⁵ In despatch No. 148, March 24, the Consul General at Shanghai reported that \$163,559,760.62 worth of foreign exchange had accrued to the Central Bank of China during 1948 as a result of exports of merchandise (893.5151/3-2449).

lay. Considering collection taxes be in silver dollars or foreign exchange.

Chinese Government reluctant use any gold resources for procurement silver on basis dissipation gold reserves for GY would seriously impair confidence people. (From other sources it has been reliably learned that gold resources Chinese Government total between 5.8 and 6 million ounces.)

Further details and analysis will follow.¹⁶

Request Treasury comments soonest. [Parker.]

CABOT

893.515/2-1549

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

No. 20

PEIPING, February 15, 1949.

[Received May 17.]

The Consul General has the honor to transmit herewith for the information of the Department a copy of a proclamation¹⁷ regarding the exchange of Nationalist currency (GY) for Communist currency in the Peiping area. This proclamation appeared in the February 2, 1949, issue of the *Jen Min Jih Pao* (People's Daily News, formerly the *Hua Pei Jih Pao*), which is now the official Communist newspaper in Peiping.

The regulations contained in the proclamation briefly provide that the circulation of Gold Yuan (GY) should be permitted for twenty days from the date of publication of the proclamation; however, residents of the city could refuse to accept GY after the publication of the proclamation. A special rate of exchange of three GY to one Communist dollar is given to students, factory workers, school staff members, and to the poor, up to the sum of \$500. GY. Only three types of Communist currency are to be allowed to circulate in the city. The People's Bank Note (PB)¹⁸ is to be the main currency, and the Chinan (South Hopei) and Northeast Bank notes subsidiary currencies. Exchange stations are to be opened for the purpose of facilitating the exchange of GY for Communist currency. Licenses to export large quantities of GY from areas controlled by the Communist armies must be obtained from the Municipal Government or the People's Bank (formerly the Central Bank of China). This proclamation also contains an additional section outlining the procedure under which persons entitled to the special exchange rate may obtain that rate at the exchange stations.

¹⁶ Telegram No. 631, February 23, 2 p. m., p. 740.

¹⁷ Not printed.

¹⁸ Also known as PBN and PN.

The exchange of currency under the terms of the proclamation began on February 4, on which day only those entitled to the special rate could change their money. On February 6 the exchange for the general public began, with 228 exchange stations (banks, money shops, and commodity shops) participating. The exchange proceeded smoothly, with the result that GY has continued to be accepted for the time being without question or hesitation.

The rate of exchange now prevailing is ten GY to one PB. It is interesting to note that at the beginning of January the rate of exchange in "liberated areas" in North China was three GY to one PB, and that before the end of the month the devaluation of GY in successive steps had brought that currency down to the present rate of exchange. During the period of exchange in Tientsin GY was devaluated officially twice within five days, with the result that a financial panic ensued. GY was almost universally not accepted, the banks were overwhelmed with people trying to change their GY holdings, a black market in PB appeared, and prices rose vertically at the same time that GY depreciated to a point far below the officially proclaimed level. The Communist authorities have apparently taken this lesson sufficiently to heart that no further devaluation of GY has been announced, although a memorandum from the People's Bank, Peiping branch, to all the exchange stations, warns them to be prompt in reporting transactions in order to avoid losses because of a sudden change in rate.

A rate of exchange for United States currency against PB has not yet been announced in Peiping. The present official rate in Tientsin is 80 PB to \$1.00 US. This official rate was announced in the first days of Communist control of Tientsin. In both Peiping and Tientsin the black market rate for the dollar is approximately double the official rate. In this connection it should be noted that the most common People's Bank note is the one hundred dollar denomination, which is itself a sign of inflation. There are indications that the Communist authorities recognise that the official rate for the U.S. dollar is far too low, and intend to refrain for the time being from announcing a new rate in the hope that a changed rate may be announced at such a time and under such conditions that a black market may be avoided.

Banks and shops assisting in the exchange operation are to be given a commission of four-tenths of one percent on each dollar GY exchange. At least one commercial bank is operating as an exchange station under the direct supervision of a Communist official, the officers of the bank having nothing to do with the transactions. The bank is contributing its quarters and clerical staff, and expects to receive the commission when the exchange period has ended. Foreign banks have

not been appointed as exchange shops, and in fact have not been approached by the new authorities regarding any matter whatsoever.

E[DMUND] C[LUBB]

893.515/2-1649: Telegram

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

SHANGHAI, February 16, 1949.

[Received February 16—5:30 a. m.]

573. UP despatch datelined Hong Kong February 15 published *China Press* 16th reports arrival Amoy from Canton 160 tons Government owned gold, silver bullion. Shipments made in two lots. Ten tons gold shipped aboard Chinese Customs cruiser and 150 tons gold and silver aboard *Hai Ping*. Item also quotes source as stating even larger amounts understood arrived Shanghai en route Formosa.

Sent Nanking 386, repeated Department 573, Canton 62.

CABOT

893.5151/2-2349: Telegram

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

SHANGHAI, February 23, 1949—2 p. m.

[Received February 23—3:30 a. m.]

631. For Treasury, State, ECA from Parker. On February 19 Hsu Kan and S. Y. Liu held further discussion with Ambassador, Merchant, Parker on proposed financial measures. Plan changed from that reported ConGentel 550, February 15, principally in retention of exchange surrender certificate plan. Import licenses will be discontinued although present prohibited list will be retained. Certificates will be sold freely on open market and Government hopes this will become significant source of interest for short term credit. (Other informant reliably reports issuance certificates has exceeded foreign exchange cover for past several months.)

Gold, silver, foreign currency notes, but not foreign exchange will circulate freely but export prohibited. Central Bank will release gold at rate \$15 million per month in redemption GY notes. Gold will be sold highest obtainable price with objective maximum contraction note circulation. Bank will also undertake general open market operations, buying, selling gold, silver currencies throughout China and Hong Kong.

Government will go ahead with gold sales plan and release silver coins as troop-civil worker pay without waiting US reaction silver loan. Finance Minister and Central Bank officials still pressing for

answer from State and Treasury Departments on prospects negotiations for silver loan. Central Bank now reports total external assets \$300 million of which gold just under 3 million ounces and silver 40 million coins and 20 million ounces bars. Unable so far reconcile Central Bank reports with information total gold holdings nearly 6 million ounces.

Officials consider too late in China's day to place government finances on tax supported basis. Accordingly note issue will be expanded by approximately 60% per month although open market gold operations expected greatly to minimize effect on prices. During past month note issue expanded 200% with Shanghai wholesale price index up 6.8 times. GY circulation February 18 was 40 billion.

S. Y. Liu, Governor Central Bank, apparently determinant influence financial policies in China. He assured President Li that he can hold currency for 3 to 4 months. In addition to attempt avert currency collapse, plan generated by Government [in] alarm [at] tendencies toward assumption by Provincial Government of regional autonomy over financial matters. This includes provincial currencies and retention all tax collections. Reported that peace mission in contact Mao Tse-tung¹⁹ emphasizing precarious position currency and urging compromise soonest to permit Communists take over while monetary situation intact. Have reliably learned financial planning, including national currency and Central Bank, undertaken by Communists only within last 2 months. Communists have appealed to number Central Bank people for planning assistance. Reported Chang Kia-ngau²⁰ was asked prepare memo on Central Bank operations. Communists actively seeking foreign financial advisor and have approached people here and with US Government in Washington. Reliably reported inadequate preparation monetary management one of most important reasons delaying further advance.

Request immediate instructions reply to be made regarding silver loan.

Sent Department, pouched Nanking 418, Canton 84. [Parker.]

CABOT

893.51/2—1549: Telegram

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

WASHINGTON, February 23, 1949—1 p. m.

336. For Cabot and Parker from State & Treas. State and Treas do not consider that present conditions in China warrant grant or loan to China for purposes outlined urtel 550. For your background in-

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

²⁰ Governor of the Central Bank of China, March 1947—May 1948.

formation only considerations which led to Secy Marshall's²¹ expression of views on use of silver before House Foreign Affairs Committee on Feb 20, 1948,²² expanded statement subsequently submitted to committee²³ and airpouched Emb Depins 165 Aug 13, 1948 to Nanking²⁴ and Secy Snyder's²⁵ views expressed in letter Aug 30, 1947 to Secy Marshall²⁶ transmitted to Emb as Airgram No. 138 of Sept 9, 1947²⁴ appear to be equally applicable even to limited operation of type outlined refetel. No encouragement should be given to Chinese Govt silver proposal. [State and Treasury.]

ACHESON

893.51/2-2649 : Telegram

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

SHANGHAI, February 26, 1949—11 a. m.

[Received February 26—3:39 a. m.]

682. For State, Treasury and ECA from Parker. Financial reform plan as announced morning February 25 contains only general outlines new measures. No implementing administrative procedures formulated and Finance Minister and Central Bank officials Shanghai have vague and conflicting ideas plan.

As announced provides:

1. Currency. Transactions gold, silver but not foreign currencies authorized; possession foreign currency not illegal. Government will mint and circulate silver dollars. Exchange certificates will continue, may circulate freely, will be bought and sold at "realistic rates". Government retains authority administration [*administrative*] determination rates all circulating media (i.e. gold, silver, gold yuan, certificates) but in practice will set only cross rates between gold, silver, certificates and allow free market conditions to determine relationship gold yuan and dollar currency. All proceeds exports and inward remittances must be surrendered Central Bank for certificates. Central Bank retains control export all foreign exchange assets. Persons leaving or entering China may carry limited gold, silver and up to \$500 in foreign currency notes.

2. Government finance. All military expenditures and payment civilian government workers in silver dollars. Industrial taxes must be

²¹ General of the Army George C. Marshall, Secretary of State, January 1947-January 1949.

²² *United States Foreign Policy for a Post-War Recovery Program: Hearings*, 80th Cong., 2nd sess. (Washington, Government Printing Office, 1948), pt. 2, p. 1569.

²³ Entitled *Possible Use of Silver for Monetary Stabilization in China in Connection With the China Aid Program*; for text, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 987.

²⁴ Not printed.

²⁵ John W. Snyder, Secretary of the Treasury.

²⁶ *Foreign Relations*, 1947, vol. VII, p. 1182.

paid in merchandise, silver dollars or in currency equivalent value of merchandise at time actual payment.

3. Import-export. Quota system abolished. Prohibited list remains, will be modified from time to time. Import permits required only for cotton, POL,²⁷ tobacco, fertilizers. Private foreign exchange holdings may be used freely to finance imports.

While still some discussion Central Bank open market operations gold and silver, which was heart proposal presented last week by S. Y. Liu, this feature not mentioned in today's announcement and Central Bank officials ambiguous as to present intentions. Modification proposal originally presented resulted discussion Canton. Finance Minister and Liu after set-back in Cabinet discussion rushed to see T. V. Soong²⁸ in Hong Kong. Believe, but without confirmation, President Li and Central Bank may have lost control gold stock.

Local financial market fluctuated violently. On 24th dollar notes to gold yuan went from 2400 to 2740. Opened 25th after announcement financial measures at 3000, hit high of 3100 and closed at 2870. Opened 26th 2730. Certificates went briefly on 25th to 3200 in heavy demand since imports possible with certificates but without license. Central Bank, lacking sufficient foreign exchange cover, forced to compete in market to buy certificates.

Although press has featured activity local mint re silver coins, none of stamping presses will be in operable condition for 3 weeks. Local financial people, including H. J. Shen, manager Central Trust and secretary CUSA,²⁹ openly agree introduction silver dooms popular acceptance gold yuan notes. Use of government stocks gold and silver only method financing deficit operations which now estimated \$20-30 [million?] per month. Most press comment negative.

Afternoon February 25 Parker and Griffin informed H. J. Shen (most responsible finance official in Shanghai) of substance State-Treasury attitude silver loan. He will inform President Li today. Reaction one of great discouragement. Asked for comment as to conditions under which US would consider assistance to China in any form. He stressed that request was political appeal and admitted loan feature was sugar-coating.

Probable all prices henceforth expressed in silver dollars so long as stable. Wage payments government workers in silver will generate demand other wages paid similarly. Doubtful many enterprises can afford resulting increase wage rates. Will be forced close unless government subsidy forthcoming. Prices jumped sharply afternoon 25th. Rice

²⁷ Petroleum, oil, lubricants.

²⁸ Former Chinese Minister of Finance, Governor of the Central Bank of China, and Chairman of the Board of Directors of the Bank of China.

²⁹ Chinese Council for United States Aid.

up 30 percent to gold yuan 15,000 picul despite continuation rice rationing at controlled prices.

Sent Department; pouched Nanking 444, Canton 98. [Parker.]

CABOT

893.5151/3-449: Telegram

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

NANKING, March 4, 1949—4 p. m.
[Received 11:04 p. m.]

516. North Shensi newscast March 2 contains following item:

“Peiping—The Military Control Commission at Peiping has issued a proclamation strictly forbidding the circulation of silver dollars or the making of transactions in terms of silver dollars. It requires all public and private bodies as well as individuals to exchange their silver dollars with the People’s Bank or its designated exchange offices at the officially announced rate.”

Apparently Communist authorities Peiping decided free trading in silver dollars one cause of frequent fluctuations and upward trend commodity financial prices. This new policy of Communists toward holding and [illegal?] transactions silver dollars reminiscent long-standing Nationalist Government policy just now reversed permitting transactions silver. Should Communists at any time establish official premium silver dollars terms PBN, silver dollars would undoubtedly flow from Nationalist to Red areas.

Sent Department 516; repeated Shanghai 238.

STUART

893.5151/3-1149: Telegram

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

SHANGHAI, March 11, 1949—noon.
[Received March 11—2:50 a. m.]

840. For State, Treasury, ECA from Parker. During fortnight since “financial reforms” announced no specific clarifying announcement has been forthcoming. Market continues disturbed. Primary characteristic this period has been sharp shift upward in rate of increase commodity prices both Shanghai and Canton beginning date announcement. Central Bank has withdrawn from policy of containing rise in BM^{29a} rate by dumping gold and commodities. Whereas

^{29a} Black Market.

former operations consisted strong selling action in early morning as market developed, bank now following policy of selling gold in afternoon following noon closing. Gold sales made through Chase Bank to local goldsmiths³⁰ in amounts up to 8,000 ounces week. S. Y. Liu says this program of permitting increase GY price gold designed yield maximum absorption currency through gold sales. However, concomitant price increase necessitate larger emission GY notes.

Note issue now 71 billion. Present increase at rate of 170 percent per month as against 180 percent week ago. Open market rate US dollar notes 10 March 6050 buying, 6150 selling. On March 9 rate advanced from 5170 to 6000 on basis strengthening Commie attitude in peace negotiations with persistent rumors intended crossing Yangtze at Tichiang (west of Wuhu) which counteracted generally favorable response Sun Fo Cabinet resignation.³¹ Shanghai wholesale price index rose 62 percent during week ending March 9 to 166,666 on August 19 base. Greatest gains last 2 days. Large denomination notes being issued.

GY 500 appeared last week, 1000 to be released today. Money market continues tight with interest rate about 300 percent per month.

Despite obvious failure new measures as stabilizing influence, Hsu Kan apparently retains confidence President Li and expected to retain position as Finance Minister.

Central Bank has not yet begun to issue silver dollars in appreciable quantity. Public warned against expressing prices in silver or US dollars and apparently Finance Minister abandoned intention to collect customs duties in foreign exchange. Although publicly announced travelers may carry in and out of China up to \$500 in foreign currency, customs not advised and continue permit only \$100.

Government on March 9 released statement that request to US for silver loan had been turned down and indicated US Treasury responsible for decision. Tsuyee Pei³² has been instructed approach Treasury and State concerning metallic loan either gold or silver. Reliably informed he lacks accurate information official Chinese gold and silver holdings.

Sent Department, pouched Nanking 599, Canton 140. [Parker.]

CABOT

³⁰ In telegram No. 886, March 15, 5 p. m., the Consul General at Shanghai reported that the Central Bank was operating through devious undercover channels to manipulate the market and could not confirm that the Chase Bank was acting as its agent (893.5151/3-1549).

³¹ On March 8.

³² Chairman of the Chinese Technical Mission in Washington.

893.51/3-2349: Telegram

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

NANKING, March 23, 1949—noon.

[Received March 23—3:54 a. m.]

629. New Premier³³ came to see me Sunday evening to discuss chaotic financial situation and its mortal threat to his Cabinet in the making. He requested US support for Chinese currency, suggesting a kind of stabilizing loan of "2 or 300 million dollars". He said that unless support in some degree were forthcoming from abroad promptly, new government if formed could not survive nor could it be expected to hold its own in any peace talks with Communists. I made no comment other than that I would transmit his request to my Government. Our comments follow separately.³⁴

Sent Department, repeated Canton 182, Shanghai 288.

STUART

893.51/3-2349: Telegram

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

NANKING, March 23, 1949—8 p. m.

[Received 11:35 p. m.]

637. Following are our comments (concurred in by Merchant and Parker) promised by Embtel 629 to Department, March 23, repeated Embassy Canton 182 and Shanghai 288.

Although we agree financial situation growing increasingly perilous, we can find no support on economic grounds for currency stabilization loan. Intensifying currency crisis essentially arises from internal budget deficit and not shortage foreign exchange. ECA commodity import program has substantially answered latter phase problem.

Any "stabilization" loan at this time would be merely budget deficit assistance. Deficit is internal Chinese problem and Government has consistently proved unable or unwilling to act either to increase Government revenues or reduce expenses. Fact of deficit alone is not cause but symptom of fundamental imbalance between tremendous demand arising from weight of Government's military structure, administration [*administrative*] incompetence and corruption upon increasingly limited goods and services. No fiscal program involving quantitative monetary manipulations of the type monotonously recurring in past as "financial reforms" can significantly affect this imbalance. We know of no Chinese Government fiscal program proposed or in prospect

³³ General Ho Ying-chin.

³⁴ *Infra*.

which offers any possibility effective results in meeting monetary difficulties.

Only constructive suggestion which can be made is through more effective internal use of commodity import program of type handled by ECA. Through increasing value of commodities imported to China by applying remaining uncommitted balances in ECA account to commodity program and simultaneously eliminating or reducing all local currency expenditures from special account the Government would be enabled to finance substantial portion its deficit by commodity sales. This would have effect of increasing available goods and at same time, in quantitative terms, permit some stabilization in volume of note issue. While this action would not be adequate under present conditions to achieve any real stabilization, it should be sufficient to extend effective life economic basis of Nationalist China and retard centrifugal disintegration toward regionalism until peace talks advance to more conclusive stage.

On political grounds alone we feel this suggestion should be adopted. Although we believe that controlling factor in peace negotiations is relative weight respective effective military forces and recognize that any economic assistance cannot affect this ratio, it is obvious that complete economic collapse of South China would insure immediate surrender to Communists. It would appear in our interest to take some action which would preserve Nationalist Government in a tolerable bargaining position, even if for no other reason than to prevent sudden dramatic Communist seizure all remainder China with attendant disastrous effects on southeast Asia.

Please pass to Treasury and ECA.

Sent Department ; repeated Canton 186, Shanghai 292.

STUART

893.5151/3-2449 : Telegram

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

SHANGHAI, March 24, 1949.

[Received March 24—5 : 26 a. m.]

988. Shanghai financial situation continues confused and parlous. Extreme currency tightness main feature past week since mid-month col⁸⁵ index and payday. Commercial banks, restricted to cash withdrawals from Central Bank only 10 percent previous days clearance, restored issuance cashiers' checks which discounted 10-15 percent in circulation. Much talk higher denomination notes which known to be

⁸⁵ Cost of living.

printed, but appears probable to save freight these shipped upcountry where also comparable currency famine.

However, most new notes Shanghai now GY 500 (rather than 100 recently prevalent), which currently worth less than US 5 cents. Press article estimates note issue now excess GY 200 billion, thus 1,000 times greater than original issue 200 million 7 months ago.

Whether or not present inadequate issuance notes deliberate Government policy, along with gold and silver sales, to hold down prices opposite has been result. BM quotations and commodity prices have been advancing average 10 percent per day and now stand 2-4000 times August levels. From 16th to 23rd March US dollars up from GY 6,800 to 11,600, certificates from 6,500 to 11,600 gold from 350,000 per oz. to 570,000 rice from 38,000 per picul 172 lbs. to 70,000.

Silver dollar program proceeding haltingly obviously beset basic difficulties. Announced mint since renewal operations March 1 has turned over to Central Bank one million new dollars, but the 4 or 5 hundred thousand actually paid out to public have been old diverse coinages. These are passing into or through hands several thousand hawkers who now adding congestion Shanghai streets.

After outlaw 13 years, legitimate gold bar exchange resumed this week, following closely reopening Shanghai stock exchange. Spot delivery only, with permissive movement quotations 10 percent daily. Traders initially cautious, not knowing how Central Bank will utilize as instrument Government policy.

S. Y. Liu designated Minister Finance in new Cabinet replacing Hsu Kan who bowed to substantial failure all recently attempted financial improvizations. No indication yet what changes in mill and thus all commerce under same cloud political uncertainty which so persistently recurrent during past year. Contributory locally is shakeup and turn-over in top staff municipal government officials responsible col index particularly coming under attack and pressure now. Resistance to collection taxes in kind also reported increasing to point rendering ineffective.

Meanwhile continued interest all concerned in barter trade with North China³⁶ which still not completely formalized. Snags, however, have brought to halt progress which was being made recent weeks in matter inter-remittance funds. Number banks were handling transmission small sums equivalent US dollars 10-20, but this stopped by Communist initiative presumably due difficulties achieving satisfactory exchange rate between two currencies which both inflating but at different tempos.

³⁶ For correspondence on this subject, see pp. 817 ff., *passim*.

Inform Treasury, Commerce.

Sent Department 988, repeated Nanking 583, Canton 200.

CABOT

893.5151/3-2549 : Telegram

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

SHANGHAI, March 25, 1949—noon.

[Received March 25—1:42 a. m.]

990. For Treasury, State and ECA from Parker. In conversation at Embassy March 24, new Finance Minister S. Y. Liu advised total currency circulation GY 120 billion which equivalent US dollars 10 million at Shanghai open market rate 11.7 thousand on March 23. Since February 24 Central Bank has dumped US dollars 6 million in gold, silver and US currency, in addition to commodities of undetermined value. In this period payment of silver coins to Chinese Army valued slightly less than US dollars 3 million. Failure of dumping to arrest price, rate increases attributed to failure dump sufficient foreign exchange. Hsu Kan opposed operation and Liu enabled use less than dollars 15 million monthly he felt required to achieve any effect.

Liu appointed Finance Minister on resignation Hsu prompted by President Li's opposition Hsu's support Gimo's desire deprive Government and Central Bank control over gold. President vainly attempted persuade Chang Kia-ngau and K. P. Chen⁸⁷ accept Finance Minister post prior asking Liu. Concurrently Liu continues Governor Central Bank but operations in charge H. J. Shen who also Director Central Trust.

Finance Minister's policy will be continue[d] use gold sales [to] finance budget deficit by absorbing currency issue. Our announcement Nanking greatly disturbing and probable reconsideration whole financial policy now being undertaken.

New subject: Shanghai wholesale index 350,082 on March 23 an increase by 117 percent over March 9 level. Index influenced particularly by sharp increase rice price from 29 to 63 thousand between March 9 and 23. Open market dollar rate closed 12.1 thousand buying March 24 (double March 9 rate). Depreciation at constant rate over period. Central Bank maintaining severe cash shortage by restricting release currency against deposits.

Sent Department; repeated Canton 204, pouched Nanking 585. [Parker.]

CABOT

⁸⁷ Chairman of the board of directors of the Shanghai Commercial and Savings Bank.

102.1/3-2849 : Telegram

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

SHANGHAI, March 28, 1949—noon.
 [Received March 27—11:31 p. m.]

1005. For Treasury from Parker. Within past 3 weeks Chinese Government approached FRB³⁸ NY re purchase gold with foreign exchange. FRB advised Chinese Government matter referred Treasury. Request involves purchase million ounces at \$35 for internal sales. Have been approached here by Finance Minister and Central Bank representatives for statement progress Treasury consideration. My position prejudiced by inability make reply. Please advise status soonest.

Under present situation consider judicious policy gold sales combined commodity import program becoming only means effectively slowing inflation to maintain intact gold yuan as basis South China economy. Although Chinese Government has at least 4 million ounces, quantity available Shanghai probably less than half million. Remainder, I am satisfied, is under Generalissimo's control in southern ports and not accessible Central Bank or Li Tsung-jen. Press associations have learned of this and will break story in United States. Since available stocks inadequate to support gold sales program to which Chinese Government committed, recommend Treasury approve sale as measure support Li's position during peace talks. However, recommend release of gold be in limited amounts calculated support present Government fiscal operations on week to week basis. Further supports should be made conditional on unification separate political factions South China and reduction military expenditures to approach realm of actuality. If approved, notification to Chinese Government could be given at time denial loan request to ease blow. Have just talked with Ambassador who approves for political considerations.

Shanghai gold market now legally reestablished, closed March 26 at gold yuan 6,350,000 per ounce. Rate against US dollars (unofficial) 47.50 to 48.50. Gold yuan rate against dollars 13,500, certificates closed buyers 11,950.

Finance Minister approached Ambassador with request I be available to him for informal but direct consultation on financial policies Chinese Government. Ambassador agreed.

Sent Department; repeated Nanking 594, Canton 210. [Parker.]

CABOT

³⁸ Federal Reserve Bank.

893.515/3-2949

Memorandum by the Director of the Office of Financial and Development Policy (Knapp) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] March 29, 1949.

1. Attached is a telegram drafted in Treasury for Parker at Shanghai³⁹ informing him of the Treasury's decision to accede to the request of the Central Bank of China for the purchase of 100,000 ounces of gold. State Department clearance is urgently requested.

2. I am aware of your serious doubts, which I fully share, as to the wisdom of China's policy of selling gold internally as a stabilization measure. However, the issue is whether these doubts justify a departure from the firmly established United States policy of selling gold freely to foreign governments and Central Banks upon request. This policy, as you know, is one of the essential elements of our international monetary policy; the United States Government, through its own actions and through the operations of the International Monetary Fund, has consistently sought to maintain the free inter-convertibility of gold and dollars and at a fixed price in order to establish gold beyond question as an international monetary medium. At the same time we have been particularly anxious to maintain a free gold sale policy in order to establish the confidence of foreign countries in dollar balances as a stable and secure form of international reserves.

3. It would be one thing for the United States Government to intervene in China's internal gold sale policy through pressure from the ECA—that is to say, through threatening to withhold dollar assistance unless China made more effective use of its own scarce gold and dollar resources. In the present circumstances, of course, we are scarcely in a position to pursue this policy. I believe it would be a mistake, however, for the reasons adduced above, to resort to our alternative instrument of control, namely, refusing to license the sale of gold. Presumably, to be consistent, we should also refuse to license export of gold already held by China at the Federal Reserve Bank of New York. Such radical departures from our established gold policies might prove most unsettling to other foreign countries. In any case, it would mean our arrogating to ourselves a policing responsibility with respect to gold transactions by foreign countries which I do not believe we are prepared to undertake as a general policy.

4. You will note that the Treasury telegram makes clear to Parker the considerations involved and specifically states that the decision in

³⁹ See telegram No. 565, March 31, 2 p. m., p. 752.

this case does not imply US endorsement of the advisability of use of Chinese dollar reserves for the purchase of gold for sale to the public.

5. ECA does not object to the substance of the attached telegram but prefers not to be mentioned in it.

893.51/3-2349: Telegram

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

WASHINGTON, March 30, 1949—7 p. m.

410. Emb authorized reply Premier's request (Embtel 629, Mar 23) in sense first two substantive paras Embtel 637 Mar 23. Regarding proposals last two paras, no encouragement should be given Chinese such use remaining ECA funds if reauthorized by Congress.

ACHESON

102.1/3-3149: Telegram

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

WASHINGTON, March 31, 1949—2 p. m.

565. From Treas for Parker. Mar 29 we advised FRB of NY to sell 100,000 ounces gold against dollars to Cenbank of China in accordance their request through usual channels. Request originally received by FRB of NY Mar 1. Surmise here that request made in view limited gold now available to Cenbank.

For your info only delay in our approval resulted from reluctance facilitate possible sale of gold internally against local currency, which considered ineffective use of limited Chinese resources. Chinese have however made request in form customary for asking for gold sales by US and decision made to release gold in accordance with long standing gold policy. Consideration being given to general review of US gold policy with respect to tightening certifications as to use of gold to be made by purchasing central banks in light of possible disappearance of monetary gold into hoards, but no change contemplated in practice pending completion such review.

Decision on gold does not imply US endorsement advisability of use of Chinese dollar reserves for purchase gold for sale to public, but means that for present at least any US views on that question would be expressed as direct concern with use of dollar resources.

New subject. Request just received to permit shipment to Shanghai of 100,000 ounces gold ear-marked FRB of NY for China Cenbank. Treas does not propose raise any objections. Possible connection two transactions not explained.

State concurs all above. ConGentel 1005 Mar 28 received as Deptel leaving. [Treasury.]

ACHESON

893.51/4-649: Telegram

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

NANKING, April 6, 1949—9 a. m.

[Received April 6—7: 50 a. m.]

709. Both Acting President and Premier have again and separately raised question of US financial, economic assistance. Prime Minister is still hoping to secure silver loan from US and suggested lien on Island of Taiwan or on its products as security. Acting President, through his emissary Kan,⁴⁰ emphasized imminent danger of collapse of Government because of fiscal situation; he asked if this did not warrant American aid sufficient to keep Nationalist Government going at least through peace talks. In response to latter's comment, I felt compelled to speak frankly. I pointed out difficulties from American standpoint in securing financial assistance. I called attention to well-known fact that Chinese Government has reportedly something less than 300 million dollars in gold and silver bullion and foreign exchange; that most of this reserve existed, or was made possible, because of previous American aid; that it would seem natural to draw upon this fund for present emergency. Our officials in Washington were of course fully aware of this reserve fund. I continued that if peace could be secured, it would not be too difficult for new government to build up fresh reserve in atmosphere of peace and period of productive activity; that if fighting were renewed, these reserves would either fall under control of Communists or be consumed within brief period of time in efforts further resistance.

I referred to analogous problem of munitions from US. Acting President and Premier had suggested that ships bringing last consignments be diverted to Hong Kong or Canton for equipment of Pai Chung-hsi⁴¹ and Chang Fa-kwei.⁴² I pointed out that there were technical difficulties in such procedures, and that in any event it seemed unnecessary, since there were ample stores of munitions in warehouses at Keelung. Problem in both cases was of course that Generalissimo controlled greater share of National Treasury reportedly stored in Taiwan and that through his appointed governor Taiwan,⁴³ he also

⁴⁰ Kan Chieh-hou. For correspondence on his mission to the United States, see pp. 699 ff.

⁴¹ Military and Political Affairs Director for Central China.

⁴² Commander in Chief of the Chinese Army.

⁴³ General Chen Cheng.

controlled warehouses full of munitions there. I added that from record past 3 years, there was but slight hope of effective resistance to Communists under this leadership. I continued that if Acting President and Premier had responsibilities for Government, they should also have authority utilize all available Government resources. I was aware of difficulties and embarrassment for them and of danger to peace negotiations by forcing issue with Generalissimo now. Nonetheless, this was problem that sooner or later would have to be faced. It was, I added, Chinese problem which they should not look to us to solve for them. Kan understood that my remarks were only for ears of President and Premier and, I believe, he also understood their import.

Sent Department 709, repeated American Embassy Canton 223, Shanghai 336, Taipei 33 (for Merchant).

STUART

102.1/4-749 : Telegram

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

SHANGHAI, April 7, 1949—11 a. m.

[Received April 7—12:27 a. m.]

1112. For Treasury from Parker. *China Press* this morning announces 2 million ounces gold purchased Chinese Government to be airlifted from US. Assume this is garble of 1,000 [100,000?] ounces purchased and 1,000 [100,000?] ounces shipped from New York earmark. Other Chinese Government economic source reports Pei has secured \$500 million silver loan. Assume here no action taken by Treasury except as reported Deptel 565, April 1 [*March 31*].

Ambassador has already advised Chinese Government denial stabilization loan. (See Nanking's telegram 709 to Department April [6]).

Gold dumping by Central Bank April 4 seriously disrupted Shanghai economy with outport repercussions. While advance monetary rates temporarily checked, little, if any, effect on prices Shanghai where rice now selling just under gold yuan 200,000 per picul and in short supply, rise Shanghai 44% since first but in producing areas up to 80%.

On basis Deptel 565, March 31, assume no immediate action will be taken future gold sales. In any event request no sales be authorized until further advice from here. It is definitely my feeling Central Bank action April 4 unwise and Chinese Government should use foreign exchange resources commodity imports. Furthermore, consider unwise further depletion Chinese Government assets in US which are only assets potentially subject our control. [Parker.]

CABOT

102.1/4-749: Telegram

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

WASHINGTON, April 8, 1949—6 p. m.

623. For Parker from Treas. FRBNY received telegraphic request Apr 8 from China CenBank to purchase another 100,000 ounces gold. Request under consideration. Re urtel 1112 Apr 7 request immediate comment. Your stated assumption reftel on basis Deptel 565⁴⁴ unclear to us but will attempt defer decision until receipt advice from you. [Treasury.]

ACHESON

Taipei Consulate General Files, Lot F31, 350 [General]

The Acting Chief of the ECA China Mission (Griffin) to the Secretary of State

SHANGHAI, April 8, 1949.

Toeca 1316. Rptd Nanking. For Lapham,⁴⁵ Cleveland⁴⁶ from Griffin, pass to Treasury from Parker. Fin[ance] Min[ister] Liu and Cent Bank Deputy Gov H J Shen called morning April 8 to request formally that \$54 million remaining ECA balances be converted entirely gold, silver and delivered Cent Bank for use open market operations in support currency. Requested \$20 million be made available immediately for use end of month with balance held US for call by ChiGovt. Proposal had been discussed President Li and PrimMin Ho who supported recommendation.

Meeting opened with statement that Comm[unist]s had last night demanded occupation Nanking without opposition as condition further peace talk conversations.⁴⁷ FinMin then said financial position of Govt near collapse, and they were "at end of rope". Chi Govt expenditures April will be at least GY800 billion, equivalent a fourfold increase note issue at end March. Estimated if no action taken prices would increase 6 to 8 times which considered unbearable. Revenues including taxes and customs equivalent only 5 percent expenditure with collection costs exceeding take.

Cent Bank foreign exchange resources, which FinMin flatly assured were total available to ChiGovt, less than US\$300 million including just under 4 million ounces gold valued US\$50 per ounce. Dollar exchange assets about US\$50 million, silver exhausted with exception

⁴⁴ March 31, 2 p. m., p. 752.

⁴⁵ Roger D. Lapham, Chief of the ECA China Mission, in Washington for consultation.

⁴⁶ Harlan Cleveland, Director of the ECA China Program.

⁴⁷ For correspondence on this subject, see vol. VIII, "Political and military situation in China", chapter III.

about 30 million Chinese silver dollars of which 20 million Amoy. Outstanding liabilities and commitments against these assets total approximately US\$200 million including liabilities to Chinese banks. Admitted that unless necessary for resumption large scale military op[eratio]ns, access to gold held Taipei and Amoy not possible.

Proposed use gold made available from ECA balance for continuous contraction currency by sales in Shanghai market. Dumping proposed at rate of approximately US\$20 million per month plus all available commodities in addition to contractive effect of ECA commodity imports. Expected this would enable withdrawal approximately half expansion in note issue. If commodity prices continued rise in face of gold dumping, currency would be used procure commodities from interior which would also be dumped to drive down commodity prices. This phase of operation, however, appeared incompletely thought out.

During period March 31 to April 7 net gold dumping CentBank 50,000 ounces gold.

Of greatest concern was problem of keeping Army loyal. Admitted much abuse military payrolls by generals. Hope that if United States agrees to proposal all troops could be paid wages 2 silver dollars per month. Since troop strength now reported at 4 million (and FinMin wryly admitted this was limit to which Defense Ministry would reduce paper figures) 8 million silver coins required per month for wages. Cent Bank currently delivering to Army 7 million coins each month for procurement food, supplies and auxiliary equipment. Chinese are willing commit 20 million silver dollars now held Amoy for combined wage and procurement if some assurance replenishing supply from silver supplied by ECA and minted United States. Silver from US might also be used as reserve for silver dollar certificates which are being printed now.

Specifically requested abandonment all alternative use by ECA of aid funds including what FinMin described as "fortification of Taiwan" and reduction to minimum of all ECA local currency expenditures. Stated specifically were concerned only to keep monetary structure intact next 2 months.

FinMin appeared obviously and physically distraught. It was evident the proposal being made now, with understanding of President, to determine whether US prepared change nature and timing of aid to see present Govt through crisis of coming few weeks.

We gave FinMin no encouragement stating only that proposal would be referred Washington and we not even able to determine whether new ECA authorization ⁴⁸ plus legislative history would permit use funds this manner.

⁴⁸ Public Law 47, approved April 19; 63 Stat. 50.

Evaluation proposal will follow.⁴⁹ Will discuss with Merchant arriving late afternoon. [Parker.]

GRIFFIN

893.5151/4-1049 : Telegram

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

SHANGHAI, April 10, 1949—11 a. m.

[Received April 10—3:36 a. m.]

1133. For Treasury from Parker. Chinese Government has on hand Shanghai 184,000 ounces gold and anticipates additional 100,000 from US prior April 14. This will be used for contractive effect note issue through internal sales during next 2 weeks. On basis information supplied by Central Bank last 2 days (ConGentel 1132, 9th⁵⁰) must conclude dumping gold and commodities only weapon immediately available avert crisis of serious proportions. Current stocks commodities for dumping very low. Bank tried selling cotton yarn Friday but market uninterested.

Since there is little else US can do at this time assist Chinese Government, reluctantly recommend approval purchase request. Anticipate similar request purchase additional 100,000 ounces in about 10 days. Reurtel 623, April 8. Merchant concurs.

Rates April 9 close. Dollar notes 60,000 gold 2.8 million ounce, rice shot to 360,000 picul carrying other food prices. [Parker.]

CABOT

893.5151/4-1649 : Telegram

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

NANKING, April 16, 1949—1 p. m.

[Received April 16—6:26 a. m.]

775. In conversation April 16 with me, Minister of Finance S. Y. Liu desperately in need encouragement said he thought Government could hold on for only 2 more weeks unless some new source credit opens up. Minister implored me to find some means either freezing assets Chinese individuals in US for use Chinese Government or revealing identity owners such assets.

I responded, firstly, that to my knowledge and on basis past experience this wise, there exists no means by which US Government could

⁴⁹ See telegram No. 1130, April 9, 10 a. m., from the Consul General at Shanghai, p. 311.

⁵⁰ Not printed; it reported the gold and silver holdings of the Chinese Government and other elements of the foreign exchange position and estimated net assets at \$102,000,000 (893.5151/4-949).

or would wish to effect freeze or identify owners. I then proceeded to stress that this is primarily Chinese problem which must be faced internally commencing with efforts to obtain for disposition by presently constituted government those assets which are now being withheld from [it, a] mission which probably could best be undertaken by Ho Ying-chin, now Prime Minister. I then pointed to the possibility of voluntary declarations of their assets by Chinese individuals generally which could ensue should certain prominent and wealthy Chinese voluntarily declare their holdings abroad and other assets offering them to the Government. Liu mentioned that steps are under way to induce Generalissimo to release to this Government large portion foreign assets under his control for Government use and that proposal is before Executive Yuan this morning which would give Government authority seize assets of Chinese.

Repudiation of the legal tender gold yuan is now very widespread making it increasingly difficult for Government and those whom it supports including the military to command goods or services. On Thursday US dollars Nanking were around GY 95,000 and Friday jumped to about 130,000, there is no reason to think such trend will not accelerate. As repudiation GY advances, silver dollars increasingly widespread demand and are commanding prices paralleling or exceeding US dollars. In face of what he considers situation impossible of solution, S. Y. Liu just 4 weeks after taking office is contemplating resignation, but will probably continue on grounds it is his patriotic duty.

Sent Department, repeated Shanghai 382, Taipei 42 for Merchant.
STUART

893.515/4-1649 : Telegram

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

NANKING, April 16, 1949.

[Received April 16—9: 27 a. m.]

776. Vernacular press today reports Control Yuan yesterday approved and sent to Executive Yuan bill calling for Government to return hoard of gold, silver and foreign currencies which last January was sent by Central Bank to Taiwan and Amoy for safekeeping.

Sent Department 776, repeated Embassy Canton 259, Shanghai 383.
STUART

893.9111 RR/4-1649: Telegram

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

CANTON, April 16, 1949.

[Received April 17—2:48 a. m.]

Cantel 223. Chinese Press. UP report Pacification Commander Yu Han-mou has prevented shipment silver by Central Bank from Canton to interior China. *Kung Ping Pao* (C-C Clique⁵¹) carried extra April 14 covering story. According UP, Kwangtung garrison troops April 14 prevented loading, approximately 7 tons silver aboard chartered CATC⁵² plane. Silver returned vaults Central Bank; frozen by military decree. Central Bank official stated shipment ordered National Finance Minister; destined Liuchow for shipment this week, via 6 chartered CAT[C] planes. UP states understood Central Bank already shipped \$200,000 before military action. Military states action taken prevent further local inflation. According UP, news proposed shipment forced up local price silver dollar parity with US dollar.

Sent Department; repeated Nanking 198, Shanghai 144.

CLARK

102.1/4-1749: Telegram

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

SHANGHAI, April 17, 1949—3 p. m.

[Received April 17—4:40 a. m.]

1215. For Treasury from Parker. Monetary and price situation Shanghai becoming progressively worse at increasing rate (see clear cables on rates past week⁵³). Finance Minister called Ambassador morning April 16 with further report of impending financial crisis. Liu said he was thinking of resigning, confirming a rumor current past week. Asked Ambassador that US Treasury freeze all deposits Chinese nationals and identify them to Chinese Government. Was advised such action not possible.

During past few days various Central Bank officials have pressed for response to pending Chinese Government request to purchase 100,000 ounces gold. Although gold dumping is now less effective weapon against inflation than even few weeks ago, appears to be only device which offers any possibility maintaining semblance order in

⁵¹ Group in the Kuomintang led by Chen Li-fu and Chen Kuo-fu.

⁵² Central Air Transport Corporation.

⁵³ Nos. 1162, April 12; 1179, April 13; and 1213, April 17; none printed.

market. Consider advisable permit Chinese Government by using own resources attempt maintain currency and financial system until Communists assume responsibility Yangtze Valley area. Gold stocks now denied Li and Central Bank by Generalissimo will also be denied Communists and it is therefore doubted Communists can avoid currency collapse on take over. However, so long as cost to US not great our interest would seem to lie in avoiding collapse monetary system until Communists do take over or at least for next 2 or 3 weeks.

On this basis again urge approval Chinese Government gold sale request (Deptel 623, April 8) and possible subsequent requests but on basis avoiding accumulating stock Shanghai. Central Bank schedules gold sales now at average rate 15,000 ounces per day with occasional larger sprees. Will need gold on hand Shanghai about April 28 with earlier assurances arrival.⁵⁴

Merchant concurs in above.

In this connection Toeca 1345, April 13⁵⁵ represents special transaction connected ECA-RFC tin purchase proposal in Yunnan. Gold to be paid out by Central Bank now in Kunming branch and probably could not be brought to Shanghai in any event. Consideration this proposal should not prejudice consideration other request.

Request advice soonest.

Sent Department, repeated Nanking 695, OffEmb Canton 271, Taipei 69. [Parker.]

CABOT

893.00/4-1849: Telegram

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

SHANGHAI, April 18, 1949—5 p. m.

[Received April 18—6: 05 a. m.]

1235. [To Nanking:] ReContel's 1216 to Department April 17, repeated Nanking 696, Canton 273; 1234 to Department April 18, repeated Nanking 710, Canton 282.⁵⁶ Evidence thus far available suggests: (1) That Acheson letter is welcomed by many politically alert Chinese in Shanghai (where peace sentiment strong), (2) that local Chinese in general accept letter as final proof that National Government will receive no more substantial American aid, (3) that some Chinese financial and political quarters, however, which have closely

⁵⁴ In telegram No. 802, April 20, 2 p. m., the Ambassador in China expressed his support of the views and recommendations in the second and third paragraphs of No. 1215 (893.51/4-2049).

⁵⁵ This ECA telegram not printed.

⁵⁶ Neither printed; they reported Chinese press comment on the Secretary of State's letter of March 15 to Senator Tom Connally, p. 607.

studied text, persist in feeling that hope for possible aid is still justified in light of letter's penultimate sentence to effect that "further recommendation might be made" if situation "clarifies itself sufficiently."

Sent Nanking 711, repeated Department 1235, Canton 283.

CABOT

893.50 Recovery/4-1949: Telegram

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

SHANGHAI, April 19, 1949—1 p. m.

[Received April 19—4:02 a. m.]

1242. For Treasury, State, ECA from Parker. Finance Minister called Treasury Attaché⁵⁷ April 18, advised President requested him develop plan continuation financing Government operations in expectation imminent outbreak extensive military operations. Cabinet sees little hope satisfactory outcome peace talks and expects breakdown leading to full warfare within week.

Liu proposes shifting to hard currency basis probably end of month. Everyone admits gold yuan will not be effective except as fractional currency for longer 2 or 3 weeks. Emphasis will be centered on paying Army and procurement Army supplies. Silver now in China will be sufficient finance minimum emergency program possible 2 months after April but no longer. Stocks on hand consist (millions silver dollar coins) 17 Amoy now being sent Shanghai, 3 Shanghai, 30 in special emergency fund held by military (this fund never before officially disclosed). Minimum requirements per month 7 military supply procurement, 5.5 for troop pay. From stocks on hand 12.5 will be paid military next 3 days for April requirements.

Liu made formal request for lend-lease of silver from US Treasury stocks to be repaid silver purchased by Chinese Government on basis availability and world market conditions. Chinese Government would buy silver from US now but unwilling pay monetized price. Commercial silver markets too thin meet Chinese Government's present emergency requirements.

Chinese Government willing establish in US Treasury an escrow account on which Chinese Government to draw only for purpose procurement silver for repayment loan. Assets contemplated such deposits include (a) 245,000 ounces gold now with FRB of New York, (b) assignment to Treasury with permission ECA and RFC outstanding balance due Central Bank for pol procurement, (c) proceeds exports cotton products from stocks Shanghai amounting approxi-

⁵⁷ Paul C. Parker.

mately \$35,000,000, (d) additional required to bring total to \$70,000,000 either from government's foreign exchange balance or as last resort additional gold from Taipei stocks although this would require negotiation with Gimo. Amount silver advanced against these assets to be determined by Treasury although Liu hopes it might be at rate between 50 and 70 cents ounce against escrow assets.

Silver would be minted into Chinese dollars by Treasury mints Philadelphia and San Francisco. This constitutes separate request to Treasury. Coins to be held San Francisco until needed in China with Chinese stocks maintained only one month ahead. If Treasury should insist Chinese Government would agree not export coins until replacement silver deposited Treasury although would of course prefer being given extended period at least 2-3 years for replacement. Coins would each contain .752 ounces silver and Chinese Government would supply copper and other alloys. Hope US Navy could provide transportation.

Use in China of silver once proposal accepted would be at rate 70,000,000 pieces per month: 40 for troops on basis all silver pay, 20 for auxiliary military supply and 10 for other Government functions and possibly partial redemption silver dollar notes. Expects taxes could be collected silver dollars with expected return of 20,000,000 pieces per month making net outlay 50.

Gold yuan currency will be kept going as long as possible and thereafter be retained as subsidiary currency. Silver dollar notes will be issued and used finance Government operations as long as effective. Government may introduce notes end April on limited basis with full redemption in coins for initial period as attempt generate confidence. Another consideration is use Taiwan gold stocks later time for minting small gold coins but Finance Minister undecided what ratio between silver and gold most advantageous.

While Finance Minister now admits frankly access to Government's gold denied by Gimo, states gold will be made available to Government in event resumption military operations.

Proposal discussed with Merchant, Griffin, Cabot, who agree it is most reasonable presented thus far and appears offer some possibility meeting financial requirements military operations. Risk to US is slight and offer means most advantageous method use Chinese Government's own resources help themselves. This has not yet been discussed Ambassador but Liu will discuss with him Thursday morning. Griffin suggested (but not to Liu) ECA should do everything possible facilitate use as requested of ECA's pol credit.

No response of any kind has been made Chinese Government other than agreement that request will be transmitted Washington soonest. Liu requests that consideration be given as expeditiously as possible

and hopes some indication US attitude can be obtained within 3-4 days. Pei will be advised this proposal April 19.

In response to direct question Liu replied he still wants approval gold purchase request. Will continue gold dumping policy so long as any hope using gold yuan notes and this shipment essential maintain that program after April 24.

Sent Department, repeated OffEmb Canton 286, pouched Nanking. [Parker.]

CABOT

893.5151/4-2049 : Telegram

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

CANTON, April 20, 1949.

[Received April 20—2:40 a. m.]

Cantel 239. All vernacular papers except *Central Daily News* carry Kwangtung Governor Hsueh Yueh statement acknowledging shipment certain amount silver dollars from Canton for payment soldiers. Governor stated shipments will stop soon as Central Bank holdings reach minimum 10 million silver dollars.⁸⁸ Press estimates present holdings Central Bank vault 12 million silver dollars, 500,000 ounces gold, 2 million US and 50,000 Hong Kong dollars.

Sent Department Cantel 239, repeated Nanking unnumbered, Shanghai 153.

CLARK

893.5151/4-2049 : Telegram

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

NANKING, April 20, 1949—9 a. m.

[Received April 20—5:30 a. m.]

797. Minister of Education called with additional message from Finance Minister who is thoroughly discouraged over chaotic financial conditions Nationalist territory and trying resign. Han Li-wu did not renew Liu's requests for immediate financial assistance but did ask what US attitude would be should Nationalist forces put up spirited defense Yangtse, prevent Communists crossing and thereby recapture popular support generally for continued resistance Com-

⁸⁸ In Cantel No. 230, April 19, the Minister-Counselor of Embassy in China reported local press stories of an agreement between Nanking and Kwangtung authorities whereby silver shipments out of Canton would be limited to \$870,000 (893.5151/4-1949).

munists' southward advance. He asked if under these circumstances there would be possibility of American financial assistance to stabilize local currency or substantial silver loan for payment troops defending Nationalist territory. I replied along lines reported in mytel 701 [709] to Department April 6, repeated Canton 223, Shanghai 336, Taipei 33, pointing out that considerable treasure of gold, silver and foreign currency did exist and that it was internal Chinese problem for present government to obtain control of all of it.

Sent Department, repeated Shanghai 398, OffEmb Canton 267. Canton please pass Taipei for Merchant.

STUART

102.1/4-1749 : Telegram

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

WASHINGTON, April 21, 1949—1 p. m.

703. For Parker from Treasury. Reurtel 1215⁶⁰ FRBNY advised April 21 sell 100,000 ounces gold to Chicenbank. Re Toeca 1345⁶⁰ advise ChiGovt informally and orally that it may rely upon availability gold for future purchases its Central Bank to replenish outlays for purchase tin for delivery under existing arrangements R.F.C. Advise Green[e].⁶¹ State and ECA concur all above. [Treasury.]

ACHESON

893.515/4-2249 : Telegram

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

NANKING, April 22, 1949—11 a. m.

[Received April 22—1:31 a. m.]

814. I wish to express my agreement with the support given Chinese Government scheme develop silver currency as outlined Shanghai's 1242, April 19 to Department, repeated Canton 286, pouched Nanking 715. This seems to me one type of self-help measure we have been advocating to Chinese. Large amounts silver coin already circulating in China from provincial and national issue and traditional respect Chinese masses for silver coin currency. Plan like that outlined would seem to promise possibility Government continuing maintain semblance of fiscal integrity and unified resistance to Communists—barring other contingencies—at least for critical period immediately ahead.

Sent Department, repeated Shanghai 410. OffEmb Canton 277.

STUART

⁶⁰ April 17, 3 p. m., p. 759.

⁶⁰ April 13, not printed.

⁶¹ George H. Greene, Consultant, ECA China Mission.

893.5151/4-2349 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*NANKING, April 23, 1949—9 a. m.
[Received April 22—11 : 45 p. m.]

831. For Treasury from Parker. Peiping, Tientsin and other posts coming under Communist control have emergency supply US currency. Communist regulations now call [for] surrender all foreign currency.⁶² Since cannot assume Consulates will be inviolate, believe authority should be given these posts destroy currency in event emergency in accordance established procedures.

This would be carried out as situation necessitates with posts turning in nominal amount at official rate. Operation would not be initiated prior first successful inward remittance through authorized bank.

Sent Department, repeated Shanghai 418, OffEmb Canton 283. [Parker.]

STUART

893.515/4-2949 : Telegram

*The Secretary of State to the Consul General at Shanghai (Cabot)*⁶³

WASHINGTON, April 29, 1949—8 p. m.

806. State and Treas oppose surrender large amounts US currency under Communist foreign currency surrender regulations but believe decision and timing on destroying emergency supply US currency (urtel [Embassy's] 831 [from] Nanking) should be at discretion of posts concerned with Embassy approval if possible. Communists' foreign currency surrender regulations at present appear to apply Tientsin only (Tientsin 253⁶⁴). Peiping telegram 657, April 19⁶⁵ indicates similar move not yet taken Peiping.

We wish to point out that if post emergency fund is not large, e.g., 50,000 dols, it might be more expedient to surrender rather than destroy since discovery of destruction might be interpreted as act of economic warfare against Communist government. Also regulations (Tientsin 253) apparently permit local currency withdrawals on graduated exchange rate against surrendered dols.

⁶² In telegram No. 253, April 21, the Consul General at Tientsin (Smyth) reported a Communist Military Control Committee proclamation prohibiting possession of foreign currency by Chinese and foreign residents after April 30 and permitting withdrawals in People's Bank notes according to the official rate of exchange on the day of withdrawal (893.515/4-2149).

⁶³ Repeated to the Ambassador in China as telegram No. 536 and to the Consuls General at Tientsin and Peiping as telegrams Nos. 83 and 247, respectively.

⁶⁴ See footnote 62, above.

⁶⁵ Not printed.

However should post deem it necessary Treas hereby extends authority to destroy by burning currency as recommended urtel [*sic*] at appropriate time in accordance following instructions :

Currency should be burned in presence of a committee composed of at least three responsible employees designated by head of Consulate or Emb. All currency should be counted and scheduled by class, such as silver certificates, United States notes, Fed Res notes, etc., and by denominations, and in case of Fed Res notes also by banks of issue.

Committee should certify to complete destruction in their presence of currency so scheduled. Upon receipt of certified schedule of destruction by Treasurer of United States in Washington reimbursement for amount of currency destroyed will be made to State Dept or accountable officer concerned.

Use all possible precautions to assure that only genuine currency notes are accepted and that currency is burned to ashes and that no unburned portions remain after burning and to take appropriate steps to safeguard destruction operation. Suggest several destruction schedules be certified for each burning operation so that duplicate available in case any schedule is lost in transit to US.

U.S. Emb and ConGens also authorized when emergency conditions deem it advisable to act on requests of private holders of US currency and destroy their currency in accordance above procedure. Reimbursement will be made to banks specified by owners of such currency.

ACHESON

893.50/5-349 : Telegram

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

NANKING, April [*May*] 3, 1949—noon.

[Received May 3—6:34 a. m.]

918. Summary economic developments Nanking :

Since Communist takeover April 24 city has had isolated economy especially in sense that it thus far impossible reestablish modern transportation connections of any economic importance with outside areas except across Yangtze. Markets generally slack owing to buyer reluctance and currency exchange problem since introduction Communist notes. Many shops opening but larger firms still closed; daily official announcement PBN rates for GY beginning 29th expected encourage greater retail activity. Communist armies introduced three kinds currency Nanking, namely Jen Min (PBN) notes, Pei-hai (North Sea) notes, and Hua Chung (Central China) notes. Pei-hai notes already banned by local authorities. Problem substitution PBN locally as legal tender has been subject early action Military Control Commission. Currency regulations already issued (Embtel 907, April 30 to

Department,⁶⁶ repeated Canton 337, Shanghai 484) call for repudiation GY earliest possible by local populace and in any case no later than May 8.

Monetary and Trade Department Nanking Military Control Commission issued statement May 1, essential points include: GY should be promptly eliminated from Nanking by people; merchants should take positive steps to convey GY into Nationalist areas and bring back commodities (with exception narcotic drugs and contraband); Hua Chung notes are to circulate as subsidiary currency simultaneously with PBN, but other Communist notes such as Pei-hai, Chung Chow (Honan), and Chi-nan (South Hopei) are banned in Nanking. Rate Hua Chung to PBN: 100 to 1.

Nanking branch People's Bank formally opened May 2 in former Central Bank premises. Shun Keng-tao is Manager.

From May 2, GY convertible into PBN at 17 places including People's Bank, Postal Savings Remittances Bank, Bank Communications, Bank China and many private commercial banks. Only 5, 10, and 50 thousand denomination GY notes permitted conversion, however, in accordance with rate announced daily by People's Bank. Amount convertible by any individual limited to 200 PBN daily. Chosen representatives of factory workers, teachers, students (middle school or higher) and staffs of units taken over by Military Control Commission may act at People's Bank for them after proper certification. Rate conversion April 29 PBN 1 to GY 2500; April 30, 1 to 2800; May 1, 1 to 3500; May 2, 1 to 4000; May 3, 1 to 5000. At today's rate, therefore, GY 1 million per individual convertible.

While GY price US dollar and silver coins around 1,000,000 and 1,300,000 respectively April 23 when Communists entered city, sharp decrease these quotations developed over week until by Thursday April 28 above rates reduced approximately half. Over past weekend, however, dollars and coins have regained earlier position vis-à-vis GY. Rates now about 2,000,000 and 2,200,000 respectively. Note silver strongly above par US dollars. At official rates PBN announced today, US dollars equal 396 PBN.

Municipal shuttle train has resumed operation; some public buses running; pedi cabs sufficient meet modest demand.

Nanking-Changchow section Anking-Shanghai railroad resumed operation April 27. Repairs to 1-kilometer length Pukow-Tungko section Tientsin-Pukow railroad completed May 1.

Sent Department, repeated Shanghai 487, OffEmb Canton 340.

STUART

⁶⁶ Not printed.

893.24 FLC/5-449

The Secretary of State to the Chinese Ambassador (Koo)

WASHINGTON, May 4, 1949.

EXCELLENCY: I have the honor to refer to the following communications between Naval Officials of the Republic of China and the former Central Field Commissioner for China, Japan and Northern Pacific,⁶⁷ Office of the Foreign Liquidation Commissioner, representing the United States of America, regarding the payment of an installment of principal and interest due the United States as of May 1, 1948 under Sales Contract No. W-FLC(CH) 338, as amended by Supplemental Agreement No. 1, sometimes referred to as the "China Dockyards Contract":⁶⁸

[Here follows a listing of six communications.] Typewritten copies of these communications, marked as enumerated above, as well as photostatic copies of the Sales Contract and Supplemental Agreement No. 1, are enclosed⁶⁹ herewith for your convenience.

The office of the former Central Field Commissioner for China, Japan and Northern Pacific, located in Shanghai, has been discontinued and accordingly this communication is being addressed to your Excellency so that the contents may be conveyed to the appropriate officials of your Government.

Your Excellency will note from the communications referred to above that the net amount of the payment due as of May 1, 1948 under the China Dockyards Contract was \$179,447.98, computed as follows:

Interest accrued to April 30, 1948	\$ 65,482.17
Principal installment due May 1, 1948	136,059.39
	<hr/>
Total amount due May 1, 1948	\$201,541.56
Less value of goods and services furnished to April 30, 1948	22,093.58
	<hr/>
Net amount due May 1, 1948	\$179,447.98

The value of goods and services furnished by China to April 30, 1948 has been deducted from the total amount due as of May 1, 1948, inasmuch as the United States has elected to exercise the option contained in Article 7a ii of the Contract.

⁶⁷ Capt. S. N. Ferris Luboshez.

⁶⁸ Signed at Shanghai, May 15, 1946. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1946, vol. x, pp. 1069 ff. The supplemental agreement was signed at Shanghai on January 24, 1948.

⁶⁹ None printed.

The three proposals contained in paragraph 3 of reference (3),⁷⁰ enclosed herewith, and the request contained in paragraph 7 of reference (4),⁷¹ enclosed herewith, have received careful consideration and I am authorized to inform your Excellency that, in addition to exercising the option contained in Article 7*a* ii as noted above, my Government is willing in principle to exercise also the option contained in Article 7*b* of the Contract, as proposed by your Government, subject to mutual agreement as to the appropriate method of implementing the option provision contained in Article 7*a* ii. According to my Government's interpretation of Article 7*a* ii, as amended, the value of goods and services furnished by China in any year ending April 30 may, at the option of the United States, be credited to the payment of principal or interest which shall become due and payable as provided in the contract. It is the view of my Government that such option was not intended to permit the crediting of the value of such goods and services to the payment of future installments of principal or interest beyond the ensuing May 1 which have not yet matured under the provisions of Article 6, as amended. However, in the event that interest is deferred or principal installments extended pursuant to Article 7*b*, with the effect of postponing the obligation of China to pay in United States currency as provided in Article 6*d*, my Government desires to reserve the right to credit the value of goods and services furnished by China in any subsequent year ending April 30 to the payment as of the ensuing May 1, in the following order, of (a) past due interest, if any, (b) any interest which may have been deferred beyond its original due date by exercise of the option contained in Article 7*b*, (c) past due principal installments, if any, (d) any interest or principal installment which shall become due and payable on the ensuing May 1, and (e) any principal installments which may have been extended beyond their original maturity dates by exercise of the

⁷⁰ Letter of November 18, 1948, from Vice Adm. Kwei Yung-chin, Commander in Chief of the Chinese Navy, to Harry L. Hornback, Deputy Central Field Commissioner for China, Japan, and Northern Pacific, OFLC. It recommended the following:

"(1) To request the United States Congress to consider the entire purchase of the surplus as a Military Aid from the United States Government apart from the \$125,000,000—already located [*allocated?*] by the U.S. Government.

(2) To request the U.S. Government to defer the payment of both the principal and interest, basing on Article 7(2) (b) [*?b?*] of the Contract.

(3) To request the U.S. Pacific Fleet to make full use of the facilities of the Kiangnan and Tsingtao Dockyards for repair, so that the proceeds therefrom can be used to offset the annual payment of principal and interest."

For correspondence on the \$125,000,000 grant, see *Foreign Relations*, 1948, vol. VIII, pp. 73 ff., and *ante*, pp. 472 ff., *passim*.

⁷¹ Letter of November 22, 1948, from Rear Adm. Pellian T. Mar, Director of the Chinese Navy Kiangnan Dock, to Mr. Hornback. It requested deferment of principal and interest payments.

option contained in Article 7b. If your Government concurs in this interpretation of the Contract, the United States agrees as follows:

(A) To defer to May 1, 1949 the time of payment of the unpaid interest due as of May 1, 1948, less the value of goods and services furnished by China to April 30, 1948, the net amount to be thus deferred being \$43,388.59, and

(B) To extend to May 1, 1978 the time of payment of the unpaid installment of principal due as of May 1, 1948, in the amount of \$136,059.39.

If your Government concurs in the arrangements outlined above, it is requested that my Government be notified to that effect so that the records of the Foreign Liquidation Commissioner may be adjusted accordingly.

Accept [etc.]

For the Secretary of State:

WILLARD L. THORP ⁷²

893.515/5-849: Telegram

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

NANKING, May 8, 1949—noon.

[Received May 8—1 a. m.]

964. [To Tientsin:] Request Tientsin, Peiping report Embassy and repeat Embassy [Office in] Canton and Department in more detail experience your post in negotiations with Communist authorities concerning disposition US currency on hand and for local currency needs. Information necessary in order precedents favorable US Government may be listed, circulated posts under Communist control or about to fall.

Have you been able, on [to?] turn in US currency, negotiate for establishment US dollar credit subject withdrawal in local currency at rate prevalent on date of withdrawal, notwithstanding time limitations in Communist promulgated exchange regulations? Tientsin's 167, sent Department 253, April 18,⁷³ repeated Shanghai 174, Peiping 113, apparently indicates affirmative above query. Do Communists freely accept drafts? Is acceptance based on Communist regulation or on negotiation? Please list particular points of difficulty in negotiating, if any.

Sent Tientsin 28, repeated Shanghai 528, OffEmb Canton 375, Department, Peiping 149.

STUART

⁷² Assistant Secretary of State for Economic Affairs.

⁷³ See footnote 62, p. 765.

893.516/5-1349 : Telegram

*The Secretary of State to the Minister-Counselor of Embassy in China
(Clark), at Canton*

WASHINGTON, May 13, 1949—1 p. m.

TelCan 167. National City Bank has approached Dept re problem of possible conflicting claims by Nationalists and successor regimes for control of govt and quasi-official funds on deposit American banks. Dept has informally advised NCB of reluctance to freeze Chinese accounts but of willingness receive requests for certification Central Bank and other official accounts under Section 25B Federal Reserve Act.⁷⁴ NCB attorneys believe Chinese might well refuse request certification since, in absence certification, if NCB refused pay out on order, Chinese probably could get summary court judgment release funds. Moreover, Chi Govt probably apprehensive possible future restrictions under certification procedure. NCB believes Chinese have taken steps to terminate authority Central Bank branch Nanking to operate official accounts with NCB. NCB lawyers appear believe best legal protection for Amer banks obtained through some form of freezing by Treas under Trading Enemy Act.⁷⁵ Your comments incl those of Treas rep and any additional info without alarming local authorities requested by 10 a. m. Wash time May 17.

ACHESON

893.516/5-1349 : Telegram

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

CANTON, May 13, 1949—3 p. m.
[Received May 14—8:07 a. m.]

Cantel 372. S. Y. Liu, Governor Central Bank Canton, informally commented to us yesterday that US Government freezing action of US \$12,000,000 Central Bank funds in US regarded Chinese Government circles as serious psychological blow and indicative US policy writing off Nationalist Government as lost cause.

Liu stated freezing action considered especially unfortunate at time when Chinese Government requires all available dollar funds especially for silver purchases intended as inflation stop-gap. Liu says Central Bank recently concluded US \$7,000,000 silver purchase from Mexico.

⁷⁴ Approved December 23, 1913; 38 Stat. 251. The Section 25(b) procedure was established under P.L. 31, approved April 7, 1941; 55 Stat. 131.

⁷⁵ Approved October 6, 1917; 40 Stat. 411.

We unaware freezing action Central Bank funds and would appreciate comments for background.

Sent Department, repeated Nanking 279, Shanghai 234.

CLARK

893.515/5-1349: Telegram

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

PEIPING, May 13, 1949—6 p. m.
[Received May 14—1:31 p. m.]

835. ReEmbtel 964, May 8, to Department. Order Peiping Military Control Committee implementing Article 7 Regulations Governing Foreign Exchange and directing exchange or deposit foreign currencies and foreign exchange issued only May 4, time limit May 10.

Consul[s] Peiping discussed matter two meetings. In end some offices deposited certain sums as token but held back full deposit. British made no deposit. Italians made first move asking deposit in name his office. Was informed I had deposited in own name (quite untrue but bank may have confused deposit made by DAL'S⁷⁶ commandant). He may have deposited all funds. French and Dutch were permitted deposit in names their offices without question but by report responsible bank official later got tongue lashing from Communist representative regarding at least French deposit. When representative this office May 10 asked bank whether deposit American Government funds could be made in name consular bank manager, after matter was submitted Communist commissar back room, orally stated such deposit unacceptable, but deposit in name individual acceptable. Office only exchanged enough currency May 10 to reduce somewhat holdings and to meet anticipated needs near future, and I of course made no deposit official funds in own name.

Note MCC regulations as issued Peiping applied "Chinese and foreign persons" but made no reference either business firms or official organs. By letter law in short it would seem inapplicable organs foreign government. In light all circumstances, addressed letter May 11 to bank which referred bank's refusal accept deposit in name Consulate and asked be informed whether (1) detailed regulations had any reference to official organs foreign governments located Peiping; (2) if so, what provisions and procedure had been fixed for handling such official funds. I remarked it would, of course, be illegal for myself for [or] other officer this consulate to dispose of official Government funds other than according American law and regulations, and that I should have asked instructions my Government in circumstances where other disposition contemplated. Letter was put in official form.

⁷⁶ Col. Morris B. DePass, Commandant, Department of Army Language School at Peiping.

Per precedent it should remain unanswered. Note that Article 8, April 7 regulations provides generally that term foreign exchange certificates is limited to 40 days, that "remittances from abroad" are excepted, but that Bank of China "at time of need" may purchase foreign exchange deposits at counter rate prior to expiry time limit "in order adjust market requirements". In view various uncertainties and insecurities attached to making such deposits and with particular reference Note One Section 5-9 and Section 5-11 Foreign Service Regulations and Deptel 247, April 29,⁷⁷ request specific instruction whether authorized, in case Communist authorities hold rule applicable official consular funds, deposit such funds in Bank of China for future exchange and withdrawal, in name Consulate. Would request authorization in any event, however, refrain or refuse delivery over of official funds at my discretion.

My reasoning this connection would be that although government prohibition use foreign currency within its boundaries would of course apply consular establishments, it would be contrary at least to accepted international practice to cause organ friendly government turnover official funds which latter was prepared freeze, and [any?] more than to require handing over by that organ of official funds in local currency into custody some state institution. Note Embassy circular telegrams August 23, 6 p. m., and September 12, 12 noon in like circumstances envisaged no delivery over to Nationalist Government official funds, in fact reported acquiescence that Government continued operation PX commissary system on closed dollar circuit. This office has ceased all salary payments in US currency. Believe any Communist move affecting American official funds, as distinct from control their market circulation, should be resisted.

Report on administrative aspects matter as raised Embassy's reference telegram to follow.⁷⁸

Sent Department 835; repeated Nanking 531, OffEmb Canton 113, Shanghai 556.

CLUBB

893.516/5-1649: Telegram

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

CANTON, May 16, 1949—1 p. m.
[Received May 16—6:43 a. m.]

Cantel 388. For State and Treasury from Clark and Parker. Headquarters including foreign exchange sections Central Bank moved Canton, but, owing opposition employees remaining Shanghai and of

⁷⁷ See telegram No. 806 to the Consul General at Shanghai, p. 765.

⁷⁸ Telegram No. 855, May 17, 6 p. m., p. 778.

Shanghai military authorities, unable bring complete records and test keys here. Present intention attempt reconstruction foreign exchange accounts and contact correspondents abroad to establish new test keys and signing officials, telCan 167, May 13.

At moment Central Bank receiving requests or deposits and payments foreign exchange through Shanghai office, but all action taken by Canton. Will shortly require two certifying signatures, from official in Canton countersigned by official in Hong Kong.

Appears intention remaining employees Shanghai may be to continue exercise some operational control over accounts held US with or without consulting head office. This may be expected to be accentuated when Shanghai further cut off. Two offices already working cross purposes in settlement petroleum accounts, and instructions from Canton only infrequently carried out by Shanghai who also accepting instruction from Garrison Commander.⁷⁹ This situation [to] continue so long as test keys and signatory authorities remain Shanghai. However, headquarters Central Bank desire no branch operate foreign exchange accounts.

Similar situation exists Government banks, particularly Bank of Communications and Postal Savings Bank.

Finance Minister greatly concerned over New York restricting use \$12 million, but I consider action justified in view recent heavy drawings by Central Government on all foreign exchange accounts without regard to current liabilities. Since President Li prevented using Chinese Government gold stock, his only recourse has been unrestrained use dollar accounts held by quasi-official banks. Believe political repercussions broad freezing acting under TWE Act⁸⁰ will offset advantages, but suggest Treasury and State should be prepared institute such action suddenly if situation worsens. Copy FRB Act not available at moment, but believe 25-B certification procedure would be desirable means centralizing operational controls.

Will reply further after discreet conversation Central Bank officials. [Clark and Parker.]

CLARK

893.516/5-1749: Telegram

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

CANTON, May 17, 1949—5 p. m.

[Received May 17—10:17 a. m.]

Cantel 398. Central Bank today in connection financial problems otherwise reported⁸¹ discussed with us proposed monetary reform

⁷⁹ Gen. Chen Ta-ching.

⁸⁰ Trading with the Enemy Act.

⁸¹ Telegram Cantel No. 399, May 17, p. 778.

plan predicated on US dollars 100,000,000 loan to Chinese Govt for silver purchases. (See Cantel 372 [May 13], repeated Nanking 279, Shanghai 234.)

We informed Central Bank that according Washington instructions US Govt has no legal authority negotiate loan that nature.

Recent decree Legislative Yuan requests Soong and Kung families contribute US dollars 1,000,000,000 to national cause regarded by financial officials as purely wishful thinking.

Sent Dept; repeated Nanking 294, Shanghai 248.

CLARK

893.5151/5-1749

Memorandum by the Director of the Office of Financial and Development Policy (Knapp) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] May 17, 1949.

Problem

With the Chinese Communists in control of Nanking and surrounding Shanghai, the Department is confronted with the problem of deciding what treatment should be afforded both public (i.e. Chinese Government) and private Chinese assets in the United States. In a memorandum dated April 27, 1949 from the Acting Director of the Office of International Finance,⁸² the Treasury Department has inquired what action, if any, should be taken by it, in respect of Chinese assets in the United States, under the powers of the Secretary of the Treasury⁸³ stemming from Section 5(b)⁸⁴ of the Trading with the Enemy Act.

In a memorandum handed to officers of the Department in January 1949,⁸⁵ the attorneys for the National City Bank indicated concern with the problem and a desire for guidance of some sort from the Department. With the fall of Nanking and the fall of Shanghai a matter of time, the National City Bank is apprehensive that it may receive orders from Central Bank offices in Communist held territory drawn on the Central Bank's accounts. National City attorneys are already aware from informal contacts that there is no disposition at present in either State or Treasury to freeze but that State is tentatively prepared to receive requests for certification under Section 25(b) of the Federal Reserve Act.

The Washington representative of the Chase National Bank has informed the Department that Chase has heard indirectly from the

⁸² Not printed; George H. Willis was Acting Director.

⁸³ John W. Snyder.

⁸⁴ The foreign funds control powers of the Secretary of the Treasury were based on Section 5(b) of the Trading with the Enemy Act as amended by Title III of the First War Powers Act, approved December 18, 1941; 55 Stat. 838.

⁸⁵ Not printed.

Chinese that they anticipate the possibility of freezing action by Treasury. The N.Y. Journal of Commerce under Washington May 11 date-line carried a story to the effect that Treasury and State are seriously considering a blocking order.

Recommendations:

The following recommendations are made:

1. Treasury should be informed that the Department is not at this time prepared to invoke the foreign fund control powers of the Secretary of the Treasury in respect of public or private Chinese assets in the United States. In view of the accelerating pace of political developments in China, this recommendation is subject to reconsideration at any time, particularly if it appears that the public assets are being dissipated into private hands.

2. The Department should inform the U.S. banks with Chinese official accounts (including Central bank accounts) that it is prepared for the time being to issue certifications covering the authority of properly designated Nationalist officials in Nationalist territory or in the U.S. to draw on the accounts. The Department should leave to the discretion of the banks the question whether they will request the present Chinese Government to apply for certification. (The Chinese may well be reluctant to ask for certification, particularly so long as the U.S. banks continue to pay out, in view of the possibility of their obtaining summary judgments in the event of refusal by the N.Y. banks to pay.) For the time being at least any certifications issued by the Department should not be limited as to amount. Any certifications issued should be withdrawn if it appears that the funds are being improperly dissipated.

Discussion:

Discussion of this problem should distinguish between (1) Chinese Government and Central Bank assets in the United States and (2) assets held by private persons resident in China. Possible procedures include (a) blocking by the Treasury Department, under the authority of Section 5(b) of the Trading with the Enemy Act; (b) certification under Section 25(b) of the Federal Reserve Act, which applies to Chinese Government and Central Bank accounts and possibly to the accounts of other Government-owned banks; and (c) State Department suggestions to courts in the United States which may request guidance in cases involving adverse claims.

There are several objectives that might be furthered by one or another of the procedures described above. In connection with private assets, blocking might be imposed either to assist the Chinese Government in mobilizing such assets for its own use (such action has several

times been requested by the Chinese Government but refused by the United States), to deny the use of such assets to the Communists, or to protect the interests of the private holders against possible Communist expropriation. In connection with Chinese official assets action might be desired (1) to deny the use of such assets to the Communists and preserve the power of the Chinese Government to dispose of them, or (2) to prevent their dissipation by officials of the Chinese Government into private accounts, or (3) to protect U.S. banks against adverse claims.

It is the consensus of the concerned divisions of the Department that blocking of private Chinese assets in the United States is not called for, partly because the bulk of such assets are so well concealed as probably not to be available to the Communists, partly because the reasons for previous refusals to block are still valid, and partly because blocking might be regarded as inconsistent with our general economic and trade policy vis-à-vis Communist China.⁸⁶

With respect to Chinese official (including Central Bank) assets it is agreed that it is first of all of utmost importance to deny the use of such assets to the Communists while the Nationalist Government is recognized. It is perhaps also important that these assets be preserved from improper dissipation. Blocking would perhaps be the most effective method of accomplishing both objectives, but such action would probably be regarded as a hostile gesture by the Communists and perhaps also by the Nationalists and might impede the attainment of our other economic objectives in that area. The advantages of blocking depend partly on the nature and value of the assets which are thus denied to the Communists. At the moment it is believed that Chinese Government and Central Bank assets in U.S. banks amount to a little more than \$100 million.

The only way to protect U.S. banks against adverse claims (other than freezing) is the certification procedure, but this can be applied only if certification is requested by the foreign government concerned. Attorneys for the National City Bank have indicated that the Chinese Government may well resist any suggestion that it seek certification, and that if the bank refuses to honor payment orders the Chinese will probably seek a court order requiring the bank to continue to make payments to the designated representatives of the Nationalist Government as the recognized government. Such a court order may not carry the same protection for the bank as certification of the account under Section 25(b). It is not believed, however, that assuring such protection is sufficient reason for a freezing order.

⁸⁶ For correspondence on this subject, see pp. 817 ff.

893.516/5-1749: Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, May 17, 1949—6 p. m.
[Received May 18—12: 18 a. m.]

Cantel 399. For State and Treasury from Parker.

1. Early morning meeting with Finance Minister confirmed substance Cantel 389, May 17.⁸⁷ Bank has already requested confirmation prior payment on pledge May 1 Shanghai drafts as indicated paragraph 2. This procedure also followed by Government banks. Liu indicated great desire cooperate US Treasury and US correspondent banks for mutual protection. If present proposal not satisfactory will be guided by further suggestions from Washington. Further agreed request certification through Pei as alternative to any type freezing action, but would prefer continued direction accounts so long as feasible.

2. Central Bank will request Pei to make application to FRB of New York for dollar loan of 7 million to be backed by pledge of gold held their account in FRB. Loan to be used to make payment Mexican Government for silver and silver coins obtained through Swann Culbertson. Loan would be short-term with repayment from Pol account due from ECA. Freezing action by New York prevents payment former silver which Chinese Government considers "desperate necessity".

3. Rather than having US go through motions of making loan to disintegrating Chinese Government at this time with attendant political implications, it would be preferable expedite release Pol funds or, if status liabilities would permit, free funds now restricted by New York. However, if this not feasible within next few days, recommend action be taken expedite approval loan. [Parker.]

CLARK

893.515/5-1749: Telegram

*The Consul General at Peiping (Clubb) to the Secretary of State*PEIPING, May 17, 1949—6 p. m.
[Received May 19—7: 21 a. m.]

855. Reference Embtel 964, May 8 and Contel 835, May 13. Since April 6 this office has met currency requirements by sale official drafts to Bank of China and Hong Kong-Shanghai Bank. Although sale began after negotiations undertaken, believe purchases resulted basic-

⁸⁷ Not printed.

ally from adoption policy by Communists announced in Foreign Exchange Regulations published April 7. Sale drafts now routine and automatically processed at rate for day. Official rate raised at irregular intervals, boosts allegedly based on price [necessities?], although col in terms US much higher than before adoption official rate.

Following is summary present practice and policy under exchange regulations reported Contel 600, April 11:⁸⁸ Although regulations state travellers' checks must be exchanged, Bank China informed member Consulate staff they accepted for safekeeping only, in view non-negotiability, and returnable upon departure holder from country. Personal checks must be negotiated, but bank guarantee required. Manager Hong Kong-Shanghai Bank here guarantees personal checks official personnel.

In oral reply to group written questions submitted by Consulate employees, Bank China stated private persons holding foreign exchange for living expenses not subject 40 days' limitation Article 8 regulations and their holdings considered "overseas remittances". Position on travellers' checks and exchange for living expenses represent withdrawal authorities from original position almost all foreign exchange must be turned in subject 40-day limit. Protests foreign community against unreasonable character this particular portion regulations appear increasingly effective. Reference Consulate's refel in refusing accept deposit US funds in name Consulate, Bank Manager stated deposit those funds in name private person would not be subject 40-day limit as accommodation this particular case.

Reference Article 15 exchange regulations, this office asked Bank China whether definition various types "immigrants" yet defined, and if time limit for deposits under Article 15 existed. Bank replied authorities at port entry would determine status individual's demand that no deposit time limit existed.

All these interpretations oral and informal, bank refusing "official" contacts. Reinterpretations therefore possible.

Sent Department, repeated Nanking 547, OffEmb Canton 122, Shanghai 57; Department pass Tientsin.

CLUBB

893.515/5-1849 : Telegram

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

PEIPING, May 18, 1949—6 p. m.
[Received May 18—2:41 p. m.]

852. ReContel 835, May 13, second paragraph. French and Dutch Consulates, after initial deposit, were approached by representatives

⁸⁸ Not printed.

bank who requested deposits be changed their personal names. French Consul ⁸⁹ complied (he later said he felt he might have complied too hastily). Matter understood still be under negotiation with Dutch who requested written communication setting forth bank's reasoning.

Re third paragraph, my letter May 11 was returned today by bank without comment. This office considers it has fulfilled its obligations vis-à-vis bank re new regulations which as stated Conreflet do not contain any provision seemingly applicable official funds.

Sent Department 852, repeated Nanking 545, OffEmb Canton 120, Shanghai 569.

CLUBB

893.515/5-1849

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, pursuant to the instructions of the Chinese Government, has the honor to request the assistance of the United States Government in coining a number of Chinese silver dollars.

In order to meet urgent needs, the Chinese Government has decided to coin a number of One *Yuan* Silver Dollars to the extent of ten million ounces of bar silver. The United States Mint in Philadelphia has in its custody one of the master dies, the obverse side of which bears the portrait of Dr. Sun Yat-sen ⁹⁰ and the date, and the reverse side, a junk and Chinese characters without the bird and sun. It measures 39mm in diameter. It is requested that a sufficient number of working dies be made from this master die and that they be made available as soon as possible.

The Bank of America at San Francisco has been asked to act as handling agents for the Central Bank of China to receive the ten million ounces of bar silver, which will be delivered to whatever place or places to be designated by the United States authorities concerned. It is hoped the dollars coins to be produced from this lot of silver will be ready as soon as possible so as to meet urgent requirements in China before the end of June, and that the coining may be undertaken at different mints, preferably in San Francisco and Philadelphia.

The Ambassador will be greatly obliged if the Secretary would be kind enough to transmit the above information to the appropriate au-

⁸⁹ Michel Bréal.

⁹⁰ Founder of the Chinese Republic, January 1, 1912, at Nanking.

thorities of the United States Government with the request that assistance be accorded to the Chinese Government in this matter.⁹¹

WASHINGTON, May 18, 1949.

893.516/5-1849 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, May 18, 1949—8 p. m.

TelCan 197. Re Cantel 372, May 13, US Govt has undertaken no action leading to freezing Chinese Govt or private assets. As Deptel 167 May 13 indicates, US does not now contemplate freezing action.

Liu apparently refers to following occurrence: NY agency Bk of China has voluntarily agreed not to dispose of its security holdings in special account in American Commercial Bk except upon counter-signature of rep of NY State Supt of Bks. Understood this arrangement, which is being kept secret, made by Supt in view his concern NY creditors of Bk might be protected. Foreign bks must be licensed to do business in NY, hence Supt's concern.

ACHESON

893.5151/5-2349 : Telegram

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

NANKING, May 23, 1949—11 a. m.

[Received May 23—2:22 a. m.]

1088. [To Hankow:] In accordance paragraph 2, Deptel 536, April 29⁹² to Embassy, sent Hankow as Embeirtel May 8, Embassy concurs ConGen's proposal comply surrender regulations if applied Hankow. (Refurtel 103, May 12.⁹³)

Embassy wishes suggest however highly desirable that if possible total surrender US dollars to be done under agreement with Communist bank authorities permitting periodic ConGen withdrawals against US dollar credit at going rate day withdrawal occurs. ConGen should keep in mind possible rapid depreciation lump sum local currency exchanged for ConGen's US dollars. Working and intent any regulations issued should be carefully studied and ConGen should explore all possible methods of conserving US dollar assets in light of regula-

⁹¹ This matter was referred to the Treasury Department which replied on June 3 that the facilities of the United States Mint Service would be available for this proposed coinage (893.515/6-349).

⁹² See footnote 63, p. 765.

⁹³ From the Consul General at Hankow (Callanan) to the Ambassador in China; copy not found in Department of State files.

tions and conditions existing locally at time surrender problem arises.

Sent Hankow 28, repeated Department 1088, passed Hankow.

STUART

893.5151/5-2549 : Telegram

The Consul at Canton (Scott) to the Secretary of State

CANTON, May 25, 1949.

[Received May 26—11:09 p. m.]

137. GY practically useless with almost no transactions in GY in Canton money market and little or no use in business. Reached 250,000,000 buying and 329,000,000 selling per US dollar May 24 but quotations extremely uncertain and vary markedly from dealer to dealer and from time to time. Even official rice price now set in silver at 8.70 per *shih* picul for first quality.

Sent Department 137; repeated Shanghai 104.

SCOTT

893.5151/5-1749

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Director of the Office of Financial and Development Policy (Knapp)

[WASHINGTON,] May 26, 1949.

I concur in the recommendations contained in your memorandum to me of May 17, 1949 with only one reservation. That is, while it may be desirable to withdraw certifications if Chinese funds are being improperly dissipated, I do not believe we should make a firm decision to do so without further consideration of the various implications of such action.

W. W[ALTON] B[UTTERWORTH]

893.9111 RR/5-2949 : Telegram

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

CANTON, May 29, 1949.

[Received May 30—2:33 a. m.]

Cantel 498. Summary Press Report May 29 follows:

Usually reliable source states Nationalist Government within few days introducing currency reform replacing gold yuan. New currency to be silver dollars with silver yuan notes auxiliary currency freely

convertible into coin. Tentative assurance Generalissimo indicated issue would be backed by gold-silver foreign exchange held by government at Taiwan and Amoy. High placed sources said more than 500,000 ounces gold held Amoy and considerable more Taiwan aggregate; stated sufficient cover war and Government expenses over one year. Since Shanghai accounted for 54 percent Government expenditures, same source said new currency could be introduced with fair measure of confidence.

CLARK

893.5151/5-2949 : Telegram

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

SHANGHAI, May 29, 1949.

[Received May 29—4:43 a. m.]

1885. Shanghai Military Control Commission May 28 proclaimed PB notes legal tender all liberated areas and required their use payment taxes, public, private transactions, debts, commodity prices, et cetera, as calculating unit; declared GY illegal but circulation permitted until June 5; fixed initial rate at GY 100,000 to PB 1; required commodity price conversions at fixed rate with no price increases allowed. Prior to May 28, all kinds debts, contracts and agreements must be converted to PB at first exchange rate.

Bank China authorized commence GY withdrawal May 30 at rates fixed by bank with details regarding rates, time limits and other procedural problems to be promulgated by People's Bank. As further GY depreciation expected, PB exchange rate readjustment temporarily permitted in conformity with GY depreciation.

Sent Department 1885; repeated Canton 572, Nanking 1032.

CABOT

893.515/5-1349 : Telegram

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

WASHINGTON, May 31, 1949—5 p. m.

340. Reurtel 835 May 13 (rptd Nanking 531, Offemb, Canton 113, Shanghai 556) and urtel 852, May 18 (rptd Nanking 545, Offemb, Canton 120, Shanghai 569). Approval herewith given proposal last two sentences third para urtel 835, that is when required to proceed make such deposit but in accordance Deptel 247 Apr 29⁹⁴ (Nanking 536) second para. Suggestion Nanking's 1088 May 23 (not rpted Pei-

⁹⁴ See footnote 63, p. 765.

ping) also approved that is "if possible total surrender US dols to be done under agreement with Comm bk authorities permitting periodic ConGen (Hankow) withdrawals against US dol credit at going rate day withdrawal occurs".

Assumption second para urtel 852 appears justified in Dept.

WEBB

846G.2393/6-249 : Telegram

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

CANTON, June 2, 1949—noon.

[Received June 3—2:35 a. m.]

Cantel 519. Central Bank requesting Embassy office explore possibility US military airlift to Hong Kong at "nominal" cost 5 million silver dollars being minted at Philadelphia for Chinese Government. Airlift to be completed mid-June.

Central Bank claims commercial airlift costs prohibitive and delivery urgent for purpose expedite introduction new currency program.

Would appreciate instructions.

CLARK

893.515/6-349 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, June 3, 1949—2 p. m.

[Received June 4—10:24 a. m.]

378. Embtel 28, May 8, repeated Department 964. We avoided direct dealing with Communist authorities reference money. In early days new regime, we obtained local currency from local American firms at open market rate. This "borrowing" technically not illegal under then existing regulations. Money repaid in US by Department.

Since May 1, we have sold drafts to officially appointed banks who negotiate drafts without difficulty in accordance official procedure.

Small amount US notes turned into Bank of China before May 1 deadline. [Balance] burned instead of depositing with Bank of China as US dollar credit for we felt extension 40-day period such deposit unlikely; also impossible request extension without revealing amount on hand.

Procedure adopted Peiping (Peiping's 835, May 13 to Department) impossible here as "possessing foreign currencies" after April 30 specifically prohibited and law strictly enforced.

Sent Department 378; repeated Nanking 228 and OffEmb Canton.

SMYTH

893.515/6-349 : Telegram

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

CANTON, June 3, 1949—4 p. m.

[Received 7: 54 p. m.]

Cantel 523. Following emerges from long conversation with S. Y. Liu, Minister Finance, yesterday:

Meeting with Generalissimo end May resulted in delegation obtaining satisfactory dispensation Taiwan-Amoy treasure for purpose financing new currency issue (Cantel 498, May 29). Total treasure said [to be] 3 million ounces gold with unimportant amounts silver and foreign exchange.

New currency program will not be introduced for at least week or more. Enhancing reason given is urgent need 5 million silver dollars minted Philadelphia for which US military air lift requested Cantel 519, June 20 [2].

Biggest drawback to currency program is that practically all Government reserves in gold bullion which not be utilized for purchase silver. Mexico insists on US dollar payment only. Chinese Government already started minting gold coins at Hong Kong in preparation "redeemable in gold or silver" feature of new program. Liu stated large parts gold bullion reserves would be converted to coin.

Central Bank apparently desperate dollar funds for silver purchases and exploring every possible means raise US dollars 7 million for planned second Mexican purchase. Central Bank attempted raise loan against gold on deposit with Federal Reserve Bank New York but was refused on technical grounds. Minister Finance now exploring possibility show US Government still owing Chinese Government some US dollars 50 million in reverse lend-lease funds. Central Bank representatives now in Hong Kong for purpose check BOSEY⁹⁵ and other records in order obtain substantiating information. We have taken cold view entire scheme.

Liu again aired plea for US 100 million loan to tide Nationalist Government over critical financial straits.

Apparently Nationalist vision maintain some kind South or South-west China autonomy expected hold out against Communists. Liu characteristically speaks of "miracles". Budget target would be 30 million silver dollars monthly for military and Government expenses. Loan of any kind, Liu says, would be partially used for desired reduction two-thirds Government payroll which impossible now due lack funds meet 3 months' severance pay requirements.

⁹⁵ Board of Supplies of the Executive Yuan.

Whole conversation characterized by air desperate optimism, unrealistic thinking and repeated fears US Government closing door on moral support Nationalist cause.

CLARK

893.5151/6-849: Telegram

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

NANKING, June 8, 1949—2 p. m.

[Received June 8—9:45 a. m.]

1239. Note foreign exchange regulations East China area, forwarded Shanghai's 1974 to Department,⁹⁶ in contrast those for North China, significantly fail to mention time limit for "deposits"⁹⁷ with Bank China (BC) as called for Article 6. While BC itself might set limit, seems probable experience North China indicated time limit not feasible enforceable, especially Shanghai. Note also definition term "foreign exchange" Article 2 does not clearly include official Government funds, so that position Peiping Consulate General surrender rule not applicable Consulate official funds possibly also practicable for Consulate General Shanghai and Embassy.

Assistant manager Nanking PBC⁹⁸ told Embassy officer yesterday definitely illegal exchange US dollars with licensed silver dollar dealers, but forceful suppression illegal exchange activities will be gradual to prevent repetition Chiang Ching-kuo episode⁹⁹ as under Kmt.¹ Legal exchange thus only possible at PBC where Embassy is converting official and personally held US currency as needed at going rate. Circular to American staff has stressed embarrassment US and unhappy consequences if official American personnel arrested for BM² dealings and warned against use American notes in local market. PBC (official) rate, however, now little over two-thirds market rate. Yesterday PBC paid 770 PN to US\$1, while BM around 1050.

PBC official also said instructions not yet received re new exchange measures and BC not yet prepared assume its responsibilities under measures. Said further while measures generally applicable here, supplementary rules adjusting them to local conditions will be issued by PBC or BC.

⁹⁶ June 3, not printed.

⁹⁷ Of foreign exchange.

⁹⁸ People's Bank of China.

⁹⁹ General Chiang Ching-kuo, elder son of Generalissimo Chiang Kai-shek, was in charge of the situation at Shanghai in the autumn of 1948; see telegram No. 2153, October 7, 1948, from the Consul General at Shanghai, *Foreign Relations*, 1948, vol. VIII, p. 417.

¹ Kuomintang (Nationalist Party).

² Black market.

Think stage not yet reached Nanking where required pay alien or American staff PN only. Believe continuation present position time being, avoidance BM, watching carefully for announcements enforcement any new local rules, is indicated. Impression is that each foreign service establishment China will be confronted individual situation this regard based on local rulings, interpretations. Precedents laid down other parts Communist China helpful guides, but not necessarily proper solution each Consulate and Embassy.

Sent Department 1239, repeated Shanghai 666, Hankow 35.

STUART

846G.2393/6-249 : Telegram

The Acting Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 9, 1949—noon.

TelCan 310. Established US Govt policy is that aviation services of armed forces shld not compete with US commercial aid transport for commercial cargo or passengers. (Cantel 519 June 2) It is understood that US Mint accepted Chi Govt's order on commercial basis, there being no implied commitment US Govt provide other services. You may add, in your discretion, that US Govt has felt necessary use commercial airlift supply silver dollars for emergency use consulates.

WEBB

893.51/6-1049 : Telegram

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

CANTON, June 10, 1949—8 p. m.
[Received June 11—7:09 a. m.]

Cantel 560. Assume Department aware Chinese Government has finalized purchase second lot Mexican silver (Cantel 523, June 3) value US \$7.1 million. Central Bank official stated today all available US dollar deposits now exhausted.

CLARK

893.5151/6-1349 : Telegram

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

NANKING, June 13, 1949—5 p. m.
[Received June 13—11:54 a. m.]

1279. ReEmbtel 1239, repeated Shanghai 666, June 8. Nanking Military Control Commission has announced that regulations for control

gold and silver for East China area now effective Nanking. People may hold gold, silver but only legal disposition of these is surrender to PBC or Bank China. No transactions in terms these permitted. Consequently earlier licensed silver dollar dealers now illegal and only legal channel for disposition gold, silver, as well as foreign currencies today is PBC. Bank China opening this a. m. but only accepting silver for exchange to PN.

While rates paid Bank China Shanghai reached 1700 and 1800 PN per US dollar last week, a development reflected in Nanking currency black market, PBC official rate used by Embassy personnel remained 770 throughout week. PBC today announced official rate PN 1200. Markets yesterday down from highs of over 2000 to about 1400. Most important, however, is that prices moved to upper levels indicated by highest financial quotations past week and have not come down to equivalent degree. Hence cost living exorbitant, picul of rice today costs US \$13 at new official rate, normally has been around US \$6.

New rate somewhat more realistic for present and affords moderate relief from personal hardships experienced by staff past 2 weeks. Nanking is in economic financial backwash and developments official financial-economic policy seem tardily almost reluctantly follow Shanghai's lead. No announcement as yet of invocation foreign exchange surrender measures locally.

Please inform FA.³

Repeated Shanghai 692.

STUART

893.515/6-1549 : Telegram

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

CANTON, June 15, 1949—5 p. m.

[Received June 15—5:51 a. m.]

Cantel 593. Manager banking department Central Bank confirmed in conversation today Amoy, Taiwan gold not yet obtained and Finance Minister⁴ presently in Taiwan conferring with Generalissimo for release.

Sent Department, repeated Nanking 396, Shanghai 338.

CLARK

³ Division of Foreign Service Administration.

⁴ Hsu Kan (since June 11).

840.51FV93/6-1549

Memorandum by Mr. Livingston T. Merchant⁵ to the Chief of the Division of Chinese Affairs (Sprouse)⁶

[WASHINGTON,] June 15, 1949.

As you know, Mr. Butterworth has been anxious to explore the feasibility of and methods by which official Chinese Government balances in the United States might, at some future point, be frozen or otherwise immobilized on short notice. In a meeting Monday with Paul Parker and Arthur Stewart⁷ of Treasury, I took occasion to explore this informally.

The fact of the matter seems to be that Chinese Government dollar balances are already so low that there really wouldn't be any significant sum to freeze. The Bank of China holds fifty-eight million dollars worth of short-term U.S. Treasuries which are earmarked against its banking liabilities in New York. The New York State Banking Commissioner has already reached an agreement with the Bank of China in New York whereby these bonds are held, in effect, in escrow and can only be withdrawn for the purpose of liquidating such obligations and upon counter-signature by a representative of the Commissioner. The total of miscellaneous banking balances of various agencies of the Chinese Government six weeks ago totalled only about twenty million dollars. The Treasury guess is that there is only a small fraction of that amount today.

In the light of this situation, it does not seem to me worthwhile to contemplate any freezing or comparable action at any future time against so insignificant a sum.

I outlined this situation to Mr. Butterworth yesterday and he expressed concurrence.

L[IVINGSTON] T. M[ERCHANT]

893.51/6-1649

Memorandum by Mr. Robert N. Magill, of the Division of Chinese Affairs, to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] June 16, 1949.

Subject: Chinese official foreign exchange assets

Our data on the above subject is far from exact, and that which we do have is subject to severe limitations on its use publicly because of the confidential character of its source.

⁵ Counselor of Embassy in China on recall to the Department for consultation.

⁶ Addressed also to the Assistant Chief of the same Division (Freeman) and to Robert N. Magill, of the same Division.

⁷ Arthur W. Stuart, Chief of the Far Eastern Division, Treasury Department.

If the House Committee hearings are open, I suggest that the subject be treated as follows, to which FN ⁸ and Treasury agree:

1. Chinese official assets in the U.S.

Current data is not available because of its confidential nature. However, it is believed that net assets are negligible due to the probability that gross assets for the most part are offset by current liabilities.

2. Official gold and silver in China and Taiwan.

In February, 1948 the Dept obtained the permission of the Chinese Govt. to report to Congress that its gold holdings were (as of Jan. 1, 1948) \$96.5 million and silver \$30 million.⁹ The Chinese Govt. reported that its currency conversion in the fall of 1948 brought in over \$100 million of gold and silver, mostly gold. Since official sales of gold during the last year and a half have been negligible, it is believed that gold holdings are likely to be in the neighborhood of at least \$200 million. Silver holdings probably have declined sharply since the Govt. has been using silver in substantial quantities for currency.

The Govt. is reported to have moved the bulk of its gold stocks to Taiwan. Unofficial reports as to the total size of the stocks vary considerably, but some usually reliable sources estimate them as high as 5-6 million ounces, or between \$175 to \$210 million.

If the hearing is an executive session, it may be appropriate to add the following:

1. Gross official assets in the U.S. are reported to have been \$102.5 million as of April 30, 1949. (We are checking with the Federal Reserve Board to see whether it is permissible to cite this figure on a confidential basis.)¹⁰

2. The Minister of Finance reported confidentially to our Embassy office in Canton on June 3, 1949¹¹ that total gold official holdings in China amounted to 3 million ounces, or approximately \$100 million. There is reason to believe, however, that this may be a considerable understatement.

893.516/6-2349 : Telegram

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

CANTON, June 23, 1949—4 p. m.

[Received June 2[23?]-10:55 a. m.]

Cantel 637. Following emerges from conversations at Central Bank yesterday.

⁸ Division of Financial Affairs.

⁹ See memorandum of February 20, 1948, on economic assistance for China, *Foreign Relations*, 1948, vol. VIII, p. 479.

¹⁰ Marginal notation: "FRB and Treas. say so."

¹¹ See telegram Cantel No. 523, p. 785.

Generally expected Hsu Kan, Minister Finance, will assume governorship Central Bank as did predecessor S. Y. Liu who already resigned.

Although results Hsu talks with Generalissimo still unknown, conversations indicated consensus he was given at least enough access treasure to accept Ministry Finance post on [*in?*] Canton. Bank department manager stated no gold has yet started move.

Small undetermined amount Central Bank gold recently sent Chungking for minting. Denominations this as well any Amoy-Taiwan gold eventually coined will be in ounces only, not dollars, in order avoid bimetallism.

First shipment two million silver dollars minted [Philadelphia?] arriving middle July not considered sufficient start contemplated silver program and date of introduction still undecided. GY definitely abandoned with Government and army pay in silver. Minister Finance obviously annoyed recent unilateral action Kwangtung Provincial Bank issuing own subsidiary silver notes contributing to confusing situation once Central Bank notes issued. Public reception Kwangtung notes weak but redemptions apparently faithful [*sic*] to date.

Central Bank has acquired 1.7 million pieces used Australian silver dollars against payment silver bullion. Entire quantity will be used for army pay.

Vastly accelerated exports latter May continued June explained by relaxation export consignment regulations. Exporters upon surrender 20% (export tax) of expected foreign exchange proceeds from consignments sent abroad (Hong Kong) not required surrender remaining 80% within stipulated time against deposit certificates as heretofore but may retain such exchange abroad without any accounting to Central Bank.

Understand Wellington Koo reopened matter of reverse lend-lease funds (Cantel 523, June 3) in Washington and purportedly was told "settlement could not be considered in cash". Would appreciate status over-all question as matter repeatedly being brought up here.

CLARK

893.515/7-249 : Telegram

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

SHANGHAI, July 2, 1949—10 a. m.

[Received July 2—4:43 a. m.]

2595 Despite theoretical virtues attributed *jen min piao*¹² and differences ideological concepts in comparison CNC or gold yuan or even with foreign currency such as US dollar and pound sterling,

¹² People's currency (Communist) or "*jmp*".

evidence now accumulating Communists have entered upon dangerous experiment in adoption commodity dollar Shanghai based on composite price rice, cotton, yarn, vegetable oil and coal briquettes. This composite price used as device stabilize value bank accounts (mytel 2557, June 30¹³) and as basis determination foreign exchange value *jmp*. Unbalance among these four basic commodities and continued inflationary pressures which advent Communist "liberation" has not eliminated may be expected to have eventual inflationary reactions on internal price structure as well as foreign exchange markets as pressures build up due blockade and trade stagnation. Recently Communists have achieved some success foreign exchange and price stabilization due low level business and dumping commodities on market, but supplies available for dumping not inexhaustible, especially as rural areas now making rice purchases in Shanghai market due lower price level here instead of affording steady source supply.

Universal pegging wages to rice, wholesale prices of which have moved up sharply last 2 weeks, most dangerous aspect of situation. If present wage formulas continue, management will be placed under intolerable burden meeting payroll at current levels prices and business activities. If management refuses following [*follow*] formulas generally adopted under SLU¹⁴ pressure any [*and*] mediation, lock-ins, strikes, demonstrations and probable violence seem inevitable. Nor can management solve its problems by dismissals superfluous labor which labor refuses accept. One large British employer labor last January forecast losses meet payrolls during interim period at average rate 10,000 pounds sterling but at recently negotiated wage agreement in relation rice prices, actual losses last 2-week period workout approximately 40,000 pound[s] sterling monthly with no relief in sight. As reported mytel 2554, June 30,¹³ Caltex¹⁵ payroll advanced from US \$40 to 100,000 from June 1948 to 1949. Andersen, Meyer [&] Company pleased with wage settlement, costing company US \$5,000 monthly, giving employees closed factory full wages on express condition they do not enter factory premises. See also mytel 2551, June 29,¹³ proposing pay-off Stan Vac¹⁶ contract employees. Comparable burdens on management also applicable Chinese employers and across the board for almost every category industry and commercial activity.

With wages and currency pegged to rice and with large foreign employers labor unable meet payrolls under established formulas from

¹³ Not printed.

¹⁴ Shanghai labor union.

¹⁵ California Texas Oil Co., Ltd.

¹⁶ Standard-Vacuum Oil Co.

current sales, substantial remittances from home office required cover Shanghai overhead. Since June 15, rice prices have doubled. Another 100 percent increase rice price within next 2 weeks or month would upset entire wage structure, particularly if PB foreign exchange and foreign currency deposit certified rates [*certificates*] remain stationary or move upward only fractionally as in past 2 weeks. If labor rejects any readjustment wage structure, foreign companies have alternative meet excessive payrolls in terms US dollars to [*or?*] become involved in labor disputes far more serious than any as yet encountered. In fact, probability further sharp rice price advances jeopardizes entire financial economic structure Communists now seeking stabilize.

Sent Department 2595, repeated Nanking 2430, OffEmb Canton 846.

CABOT

811.42700 (R) / 7-349 : Telegram

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

CANTON, July 3, 1949.

[Received July 3—7:26 a. m.]

Cantel 683. For VOANY.¹⁷ Central Government promulgated currency reform July 2. Summary of new measures follows:

1. Subsidiary silver coins denominations 1, 5, 10, 20 and 50 cents.
2. Central Bank also issues silver exchange certificates denominations 1, 5, 10, 50, 100 dollars. Subsidiary exchange certificates denominations 5, 10, 20, 50 cents.

3. Exchange certificates backed by 100 percent reserve of which at least 60 percent must consist gold or foreign exchange and no more than 40 percent goods, warehouse receipts, other valuable securities.

4. Foreign exchange to be purchased accordance with foreign exchange control regulations.

5. All public [and] private transactions on silver dollar basis. All Government organs, public utilities must accept exchange certificates.

6. Monthly reports on currency issued to be made by Central Bank to Finance Minister. Monthly investigation currency issued and reserve conditions to be made by Central Bank Supervisory Board and Control Yuan representative.

7. Provincial banks may with approval Finance Minister issue exchange certificates in denomination one dollar and subsidiary exchange notes. Monthly reports to Finance Minister on amount issued and reserve conditions and investigation by Finance Minister whenever necessary.

8. New currency measures effective July 2. In addition lengthy telegraphic instructions from Yen Hsi-shan¹⁸ state still permissible hold

¹⁷ Voice of America, New York.

¹⁸ President of the Chinese Executive Yuan (Premier).

foreign currency but circulation same forbidden. *Chien Kuo Jih Pao* reports three special planes carried 900 cases containing 4000 silver dollars each Formosa to Canton yesterday. Paper estimates 10 million silver dollars now stored Canton Central Bank.

Sent Department Cantel 683, repeated Nanking 458, Shanghai 395.

CLARK

893.5151/7-549 : Telegram

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

CANTON, July 5, 1949.

[Received July 5—4:19 p. m.]

Cantel 690. Official exchange rates based silver currency introduction follow (Cantel 683, July 3, repeated Nanking 458, Shanghai 395).

HK ²¹ \$1.00 to S \$0.24, US \$1.00 to S \$1.55, Lb ²² 1.00 to S \$3.72, ounce gold S \$75.00. Current Government revenue estimated 10–15 million silver dollars monthly versus 4 [*sic*] million expenditures, with deficit expected met by bond issues and increased taxes.

Sent Department Cantel 690; repeated Nanking 465, Shanghai 400.

CLARK

893.515/7-749

Memorandum of Telephone Conversation, by Mr. William Frohlich of the Division of Financial Affairs

[WASHINGTON,] July 7, 1949.

Participants: Edward G. Guy, Federal Reserve Bank of New York
James C. Corliss,²³ Department of State, FN
William Frohlich, Department of State, FN

The following is the substance of a telephone conversation initiated by Mr. Guy of the Federal Reserve Bank of New York City at about 3:45 pm today. The other participants were Messrs. Corliss and Frohlich in Washington.

The Federal Reserve Bank of New York received a cable on July 6, 1949, from the Central Bank of China in Hong Kong requesting that arrangements be made for the coverage of insurance and immediate shipment, by airlift from New York to the Central Bank of China at Canton, of 100,000 ounces of the Central Bank's earmarked gold valued at approximately \$3,500,000. This gold was purchased by the Federal Reserve Bank for the Central Bank of China in April 1949, and is

²¹ Hong Kong.

²² British pound.

²³ Assistant Chief of the Division of Financial Affairs (FN).

presently stored in the New York City vault of the Federal Reserve Bank of New York. (Mr. Guy stated that earlier in the day an officer of the Bank had obtained Treasury Department clearance for the proposed transaction and that it would be greatly appreciated if the Department would similarly indicate that it had no objection to such shipment going forward.) Mr. Guy gave his assurance that the Federal Reserve Bank naturally assumes all risk incidental to the use of proper tested cables with its Chinese clients. The Department's answer to the Federal Reserve Bank by telephone prior to 5:30 pm today, if at all possible, was requested since the Federal Reserve Bank was meanwhile proceeding with its other necessary arrangements incidental to the shipment. Mr. Guy was assured that we would make every effort to contact the interested persons within the Department and if it was at all possible we would give him an answer by 5:30 pm this evening.

Following a discussion of these facts with Mr. Gordon Strong, FN (in the absence of Mr. Doherty²⁴ who is attending an NAC²⁵ meeting), Mr. Strong stated that he perceived no objection to the transaction. Thereafter at Mr. Frohlich's request he obtained the following clearances by telephone:—(1) Mr. Eddy, Treasury Department, who confirmed Mr. Guy's statement that the Treasury Department had given its consent to such proposed shipment. (2) Mr. Metzger, (L/E). (3) Mr. Freeman (CA). (4) Mr. Magill, (CA). (5) Mr. Johnson, (CA).

Messrs. Corliss and Frohlich, FN, also discussed with Mr. McDiarmid,²⁶ FN, the subject matter of the telephone conversation with the Federal Reserve Bank and told him of the clearances that were thereafter obtained by telephone. All of the interested divisions in the Department have indicated that they perceived no objection to the Federal Reserve Bank's proceeding with the shipment. Notification to that effect was given to the Federal Reserve Bank (Mr. Guy) by telephone at 5:15 pm today.

893.515/7-749: Telegram

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

CANTON, July 7, 1949—7 p. m.
[Received July 8—5:16 a. m.]

Cantel 698. Hsu Po-yuan, newly appointed Deputy Governor Central Bank (Vice Minister Ministry Finance during introduction be-

²⁴ Edward W. Doherty, Assistant Chief of the same Division.

²⁵ National Advisory Council.

²⁶ Orville J. McDiarmid, Acting Associate Chief of the Division of Financial Affairs.

reaved gold yuan), expressed to us usual optimism workability silver yuan, but admitted program doomed unless antidote found for Nationalist deficit financing. He offered no comment on specific plans for balancing budget except trying printing press recourse.

According Hsu, initial note issue planned is 200 million dollars fully covered by gold and other tangibles. Further silver purchases contemplated from "Mexico and other sources", but financing plans vague. Intimation is hoped for access to uncommitted ECA funds.

Gold and some silver is definitely moving from Amoy [and] Taiwan treasure although Hsu was not at liberty divulge extent Generalissimo's generosity except to say "amount was not small". He shrugged off press claims of two million ounces.

Government has abandoned plans mint gold coins, preferring use limited minting capacity for silver dollars. Native silver is being paid with gold. Gold reserves instead will be in form standard bars.

Hsu professes no concern overseas Bank of China branches will act on Communist directives. T. M. Hsi ²⁷ (Cantel 671, June 30; ²⁸ repeated Nanking 449, Shanghai 384) already in New York.

From other bank source understand Central Bank planning transfer here 100,000 ounces of their gold account with Federal Reserve Bank New York.

Sent Department; repeated Nanking 471, Shanghai 404.

CLARK

893.50 Recovery/7-749: Telegram

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

CANTON, July 7, 1949—8 p. m.
[Received July 8—12:11 a. m.]

Cantel 699. Have been approached by various Chinese official quarters including Tung Ling, Vice Minister Foreign Office, to support Chinese request re expenditure so-called uncommitted ECA funds, Toeca 344, July 7.²⁹ There is every reason to believe that Generalissimo has at last made available at least part of his treasure trove to assist Government in its plans for monetary stabilization and continued resistance Communists. If resistance is to be continued, certainly one of first measures is stabilization currency and am inclined believe we should accede their request use uncommitted ECA funds that purpose. Also, if we are not to lay ourselves open to charge of in-

²⁷ General Manager of the Bank of China.

²⁸ Not printed.

²⁹ Not printed; it reported a Chinese request that \$40,000,000 of uncommitted ECA funds be allocated to purchase gold or silver for use as working capital in financing imports.

sincerity when we express our desire assist Nationalist Government in any feasible way, we had better have convincing arguments against not acceding to other requests as outlined Toeca 344.

CLARK

893.5151/6-2749 : Telegram

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

WASHINGTON, July 8, 1949—8 p. m.

1369. Dept not prepared this time invoke foreign funds control powers of Sec Treas relative freezing Chi Govt assets US (urtel 2507 June 27³⁰ rptd Nanking 1365, Canton 812). Reasons for this position set forth memo dated May 17 sent you air pouch under transmittal slip dated June 22, 1949, but in view probable nondelivery this memo contents will be summarized subsequent cable.³¹ Banks generally aware Dept's position and Bank America has not approached Dept.

Also consider there is no other appropriate basis supervise operations branch offices or correspondents Bank China or other Chinese banks in US or Japan for purposes suggested ref tel as well as urtel 2390 June 21³² (rptd Canton 766, Nanking 1277).

Dept however prepared consider request Chi Govt issue certifications under 25 B Fed Res Act in respect official Chi Govt accts US but no such requests received.

For your info Dept has no objection proposed procedure outlined urtel 2389 June 21³³ for Nat'l City Bank. Allowing reorganized Bank China Shanghai acquire dollar balance is consistent with US policy permit normal trade nonmilitary items with Communist controlled areas China.

ACHESON

³⁰ Not printed; it suggested Department consideration of immediate "freezing orders to all accounts Chinese Government Banks in USA . . . in order avoid improper withdrawals by both parties, protect interests of American banks where deposits held and conserve assets belonging Chinese people as a whole."

³¹ No. 1452, July 21, 6 p. m., not printed; it indicated "Consensus Dept blocking private Chi assets US not called for because bulk such assets well concealed, probably not available Commies; previous reasons refusal block still valid; and blocking might be regarded inconsistent general econ trade policy re Commie China. Blocking might be regarded hostile gesture either ChiGovt or Commies or both and impede other econ objectives all China. Official short-term Chi assets US believed only about \$100 million. General conclusion is freezing not feasible this time, and might be administratively difficult." (893.5151/7-2149)

³² Not printed.

³³ Not printed; it reported that substantial amounts of U.S. dollar notes and other negotiable instruments had been delivered to the Bank of China under the June 3 foreign exchange regulations and that the National City Bank might be approached to take over bank notes in exchange for telegraphic transfers (893.5151/6-2149).

893.5151/7-1249 : Telegram

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

NANKING, July 12, 1949.

[Received July 12—11:06 a. m.]

1489. PBC Nanking today adjusted US dollar official rate to PN 1,800. Announcement official rate started May 16th at PN 545. Adjustments made since as follows: May 20, 580; June 7th, 770; June 13th, 1200; June 14th, 1500; July 1st, 1600; July 9th, 1,700; July 12th, 1800.

Sent Department, repeated Shanghai 832.

STUART

893.515/7-1249 : Telegram

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

NANKING, July 12, 1949—7 p. m.

[Received July 12—12:30 p. m.]

1495. Re Shanghai's 1479, July 8, sent Department 2659,³⁴ refusal PBC purchase dollar instruments exceeding US \$5,000. In one sense such refusal amounts to unreasonable limitation activities foreign firms, institutions Shanghai. TT³⁵ means increased expenditures.

Embtel 836 [835] of July 12, repeated Department 1494,³⁴ indicates authorities North China not intend actually prosecute or molest those surrendering foreign currencies now despite surrender deadline long passed. Probably acute need for exchange dictates this policy after face-saving interval refusing acceptance. Suggest same may develop due course Shanghai³⁶ in which case Consulate General holdings could possibly be "unfrozen". Note surrender deadline never yet proclaimed or enforced Nanking (admittedly not financially important) or to Embassy's knowledge Hankow.

Consulate General may wish contemplate possibility in due course discreetly inquiring PBC or perhaps American appointed bank reaction proposal Consulate General exchange some US dollar currency on hand for PN. Have you considered possibility exchange US for PN this basis to meet payment ex-Navy personnel (reftel)? Suggest determination this regard might also influence Consulate General final position whether to receive and hold or witness destruction of US currency still in hands Italian Consulate General (Deptel 1351 to Shanghai July 6³⁴ and previous). In Embassy's opinion American Consulate

³⁴ Not printed.³⁵ Telegraphic transfers.³⁶ In telegram No. 3087, August 7, the Consul at Shanghai reported the local Communist Military Control Commission would permit deposit of foreign currencies after August 8 (893.5151/8-749).

General's position that US currency held by it represents official funds, is US Government property, and is therefore inviolate represents sound unassailable stand. This assumes same not permitted circulate or disposed so as influence Chinese economy in way contrary wishes authorities. Surrender at PBC or appointed bank from time to time would seem to meet this condition.

Italian Ambassador³⁷ has meanwhile again expressed hope to Embassy his Consulate General can still be accommodated in satisfactory manner. Note that possible loss US dollars to Communists would be more telling to Italian than US economy.

Sent Shanghai 836, repeated Department 1495.

STUART

893.5151/7-1549 : Telegram

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

CANTON, July 15, 1949—9 p. m.
[Received July 18—6:47 a. m.]

Cantel 744. According Ministry of Finance conversations, silver yuan certificates ostensibly holding line with demand redemptions nominal and general circulation small especially interior. Hong Kong dollars still predominant medium exchange Canton area with no apparent effort authorities enforce illegality measures.

Yuan certificates presently discounted around 5 percent open market. BM rate silver dollars few cents above today's official rate of 1.55 to US dollars 1.

Evident concern Central Bank silver needs as Army pay causing enormous drain available silver dollars. Govt employees expected paid yuan certificates next pay period.

First Philadelphia coins airlifted Hong Kong-Canton this week but additional foreign silver purchases imperative if currency is to hold line. Ministry of Finance admittedly still has no visible foreign exchange available this purpose.

CLARK

893.50/7-2049 : Telegram

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

NANKING, July 20, 1949—7 p. m.
[Received July 20—3:02 p. m.]

1560. Re Embtels 1553 to Department, repeated Shanghai 871, July 18; and 1555 to Department, repeated Shanghai 872, July 19.³⁸

³⁷ Sergio Fenoaltea.

³⁸ Neither printed.

Department will have noted rapidly growing spread between market prices and official [and?] even BM rate exchange for US dollar. This development causing Embassy increasing concern for future. Embassy sees every likelihood sharp upward commodity price trend will continue. Embassy estimates that from June 18 to July 18 official exchange rates US dollar rose 30 percent while market prices Nanking generally rose 170 percent. This trend believed general throughout Communist areas but especially acute Yangtze Valley.

Current jumps in prices are occasioned by number factors including the effective closure Shanghai port to foreign shipping and trade with immediate effect on supply. This closure simultaneously influences demand for US dollars most adversely. With present prospects of expanding their foreign trade so dim, Communists obviously can see no compelling reason to encourage surrender foreign exchange in Communist China, the more so because each dollar and each draft or TT cashed means an outpayment of PN which will reinforce inflationary pressures already so intensely at work. Furthermore, Commies can be expected try to buy foreign exchange as cheaply as possible.

Normal operating expenses of the Embassy and Consulate as well as other foreign institutions dependent upon financial resources from abroad may rise at fantastic rates in terms of US dollars. Department will recall that when such situation developed under Kmt special rates arranged for diplomatic, consular corps or else at certain points recourse was had to black market. Hardly need be mentioned that currently hostile attitude authorities makes special rate deal most unlikely. Recourse to BM at present and probably in future would be extremely dangerous to security of Americans or their Chinese agents unless Communists forced reverse present policy and leave BM dealers unmolested which most unlikely.

Even if Communists not deliberately intend such, their financial policy may become mighty factor quickly freezing out many foreign interests Communist areas.

Sent Department 1560; repeated Shanghai 760.

STUART

893.5151/7-1849: Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, July 20, 1949—7 p. m.

1443. Relevant info urtel 2812 July 18⁴⁰ passed three banks. Dept

⁴⁰ Not printed; it reported instructions of the Communist Bank of China to foreign banks in Shanghai to cancel various outstanding drafts and other negotiable instruments of the National Government dated prior to the Communist takeover of the city (May 25) and place them at its disposal; and indicated that some bank managers believed freezing procedures were the best method of protecting them from physical jeopardy and their home offices from lawsuits.

understands ChiGovt and most if not all entities Shanghai formerly its control cancelled authority officials remaining Shanghai operate official foreign accounts. Some corporations did likewise.

Reference para 4 urtel 2812 Dept advised by Parker (Cantel 389 May 17⁴¹ not to Shanghai) Central Bank China exchanged new ciphers and test keys all correspondents and during week May 1-6 instructed all correspondents disregard old and use new. New keys not possessed Shanghai. Correspondents have also been advised foreign exchange payments orders dated subsequent May 1 valid only from Canton or Hong Kong. See also Cantel 671 June 30⁴¹ repeated Shanghai 384 and last para Cantel 698 July 7 repeated Shanghai 404.

Dept making inquiry Brit Treas⁴² plans re possible freezing licensing procedures Chinese assets subject their control. Policy outlined Deptel 1369 July 8 in effect until notice change.

Dept regrets possible danger persons managers Amer banks Shanghai and other US nationals but does not believe freezing effective prevent this danger. Problem protection Amer persons and properties Shanghai separate and distinct from treatment Chinese assets US. Dept desires extend every possible protection American interests Shanghai but powers to do so are limited. Possible retaliation against Amer community Shanghai and elsewhere Communist China might follow any extreme measures undertaken by US Govt.

Dept invites ConGens further recommendations this subject urtel 2806 July 17⁴³ being studied.

ACHESON

893.5151/7-2149 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 21, 1949—8 p. m.

2536. Since occupation Shanghai by Chinese Communists ConGen Shanghai has cited numerous cases local authorities attempt seize, mobilize foreign exchange balances ChiGovt, even bringing pressure on American, other foreign bankers, businessmen transfer foreign balances favor reorganized Bank China Shanghai, and in at least one instance giving impression such foreign nationals hostages until compliance Communist orders realized. Disposition US Govt at this time not block any category Chinese assets US already conveyed ConGen Shanghai, but some elements American community Shanghai favor strong positive action U.S. Govt imposition financial controls.

Not printed.
See *infra*.
Post, p. 951.

This connection ConGen Shanghai reports ⁴⁴ Manager Hong Kong [and] Shanghai Bank feels Brit Govt should institute some blocking procedure jointly with US Govt in order protect their nationals [from] duress and possibly personal danger. Emb London therefore requested undertake discreet inquiries determine whether Brit Govt contemplating any action this subject, including use for this purpose controls presently operated Brit Treas. Emb should avoid giving impression US Govt has determined upon any course action other than that implied by fact US Govt has not to date blocked any Chinese assets US. UK Govt undoubtedly appreciates any US decision block Chinese assets would be preceded by minimum understanding cooperation other powers primarily UK. Dept not at present prepared initiate such understanding or cooperation. This position of course subject change light fluid situation China.

ACHESON

893.516/6-2349 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, July 22, 1949—8 p. m.

Telcan 487. Re last para Cantel 637, June 23, no record Chi Emb opening here question settlement reverse-lend lease. Subject mentioned in general terms only during course war accounts negotiations summer 1948.⁴⁵ Dept unaware basis rumored Chi Govt claims since no reverse lend-lease transactions reported by Chinese. Urinfo doubtful they wld be given favorable consideration if presented. Any event Dept cld not consider settlement reverse lend-lease separately from overall settlement war accounts.

ACHESON

893.5151/7-2649 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 26, 1949—6 p. m.

[Received 6:45 p. m.]

2954. Deptel 2536, July 21, re freezing Chinese foreign exchange balances. Dening,⁴⁶ Foreign Office, re paragraph 2 of Deptel under reference, states Foreign Office has not been informed opinion Hong Kong [and] Shanghai bank manager and does not contemplate freez-

⁴⁴ Telegram No. 2812, July 18, 4 p. m., not printed.

⁴⁵ For correspondence on this subject, see *Foreign Relations*, 1948, vol. VIII, pp. 686 ff.

⁴⁶ Maberly E. Dening, British Assistant Under-Secretary of State for Foreign Affairs (Far East).

ing Chinese foreign exchange assets at present time. Believes Shanghai British unduly panicky although easy to say this when 10,000 miles away. Will consult Treasury and inform Embassy.

DOUGLAS

893.515/8-149 : Telegram

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

CANTON, August 1, 1949.

[Received August 3—2: 20 p. m.]

Cantel 861. Effective August 3, circulation all foreign currencies banned (prime offender Hong Kong dollar) under penalty of confiscation and imprisonment. Possession foreign currency permissible. Silver yuan now sole legal tender public, private debts, financial transactions, taxes, commodities and basic price calculations. Enforcement by police and garrison command.

Sent Department Cantel 861, repeated Shanghai 475, Nanking 570.

CLARK

893.516/8-949 : Telegram

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

[Extract]

CANTON, August 9, 1949—11: 19 a. m.

[Received August 9—11: 19 a. m.]

Cantel 888.

Department, Taipei note. 200,000 ounces is second gold airlift ordered by Central Government from New York account within few weeks (previous 100,000 ounces Canton) leaving balance gold custody account about 40,000 ounces. Significant that destination is Taipei and urgency emphasized by Central Bank for need this gold meet "current expenses".

Sent Department Cantel 888, repeated Taipei 98.

CLARK

893.5151/7-149

The Secretary of State to Mr. Andrew McGray, Assistant Vice President of the Bank of the Manhattan Company, New York

WASHINGTON, August 10, 1949.

MY DEAR MR. McGRAY: The receipt is acknowledged of your letter date July 1, 1949⁴⁷ containing an inquiry as to whether the United

⁴⁷ Not printed.

States Government has recognized the Shanghai Military Control Commission, the People's Liberation Army East China Command, or the East China Financial Affairs Administration as the *de facto* or *de jure* government in Shanghai, China. It is inferred that one or more of the above-mentioned authorities may have asserted rights to assets held in the name of an agency of the National Government of the Republic of China.

The answer to your specific question is quite definite. The United States Government has not extended any manner of recognition to any political entity in China other than the National Government of the Republic of China with its capital at Canton, China.

Under present conditions prevailing in China, American banks, in deciding upon a specific course of action relative to duplicate claims to funds deposited with them to the credit of Chinese entities, naturally will have to rely upon established business and banking practices as consistent with applicable legal statutes and the advice of legal counsel.

For your information the United States Government has no present plans for the freezing or blocking of any category of Chinese assets in the United States. The Department of State would however be willing to consider requests by the National Government of the Republic of China for the certification (under Section 25(b) of the Federal Reserve Act, as amended) of official Chinese assets in the United States.

It is trusted that the preceding provides the clarification requested in your letter of July 1, 1949.

Sincerely yours,

For the Secretary of State:
HAROLD R. SPIEGEL
Chief
Division of Financial Affairs

893.515/8-1249 : Telegram

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

CANTON, August 12, 1949—7 p. m.
[Received August 14—1:10 p. m.]

Cantel 933. Conversations with Finance Minister and Deputy yesterday indicate Government financing considerably worse than previously known, with first 6 months' revenue 1948 given as only 1 percent of expenditures, but increased to 10 percent July with introduction currency reform. We were told July revenue 3 million silver dollars, expenditures 30 million.

Chief source revenue customs at lowest ebb and taxes, especially land taxes, difficult collect and control during present fluid conditions. Im-

ports practically nil, with export commodities remaining source or moving costs mainland for safety rather than abroad as prices uncompetitive world market levels. Economic and financial picture dismal with no apparent solution visible.

Deputy Minister gave total silver yuan note circulation as only 11 million yuan. All notes continue fully redeemable but admission made no perceptible growing public confidence in note circulation and redemptious continue unabated.

CLARK

893.24/8-1849

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Ambassador of China and has the honor to enclose a statement⁴⁸ of principal and interest due May 1, 1948, revised, and May 1, 1949 as provided under Sales Contract No. W-FLC (CH) 338 dated May 15, 1946 and supplement no. 1 dated January 24, 1948 between the Republic of China and the United States of America. The contract sets the rate of interest at two and three-eighths percent (2 $\frac{3}{8}$ %) per annum on the purchase price and all unpaid interest and provides that it accrue on January 1, 1947 for all property purchased during 1946 and on January 1, 1948 for property purchased in 1947 and on May 1, 1948 for any property purchased in 1948. The contract also provides that the purchase price shall be paid in 30 annual installments due and payable on May 1, of each year beginning May 1, 1948, and that the installment due May 1, 1948 shall be $\frac{1}{30}$ of the total purchase price and the installment due May 1, 1949 shall be $\frac{1}{15}$ of the total purchase price less the amount of the installment due May 1, 1948.

The Secretary of State informs His Excellency that interest is due May 1, 1949 in the amount of \$41,205.16 and principal is due May 1, 1948 in the amount of \$136,059.39 and May 1, 1949 in the amount of \$145,059.49 making a combined total of \$322,323.94, and requests that payment of said amount be made by depositing the sum of \$322,323.94 in United States dollars with the Federal Reserve Bank of New York to the account of the Treasurer of the United States.

The Secretary of State also informs His Excellency that a reply has not been received to the communication of May 4, 1949, and that the attached billing is subject to revision when the reply is received.

WASHINGTON, August 18, 1949.

⁴⁸ Not printed.

893.515/9-649 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 6, 1949—6 p. m.

[Received September 7—1:18 a. m.]

3673. ReDeptel 806, April 29, destruction US currency. Many American citizens here planning leave [on] *General Gordon*⁴⁹ September 24 faced with problem disposition varying sums US currency.

View strict Communist exchange control regulations, unlikely they can obtain licenses take more than US \$100 out of China. If they convert into Communist currency at bank they will in many cases have more local currency on hand than they will need. Money is of course entirely worthless outside Communist China. Owing strict Communist customs control outgoing effects and lack shipping space *General Gordon*, not practicable convert into valuable merchandise to be taken out.

American citizens some extent have knowingly placed themselves in this dilemma by acquiring unusually large amounts US currency and by refusing deposit it with appointed banks for credit [in] accord Communist banking regulations issued in June. In light recent developments, our importation amount US currency for benefit American community (ConGentel 1761, May 21⁵⁰) proved disadvantageous although at time it seemed proper course. Our furtherance this project may cause American citizens to expect our help with destruction currency. Furthermore, we are reluctant permit substantial sums US currency fall into hands Communists for benefit their economy. These considerations argue for our extension of aid or at least advice to Americans wishing dispose their currency.

On other hand even indirect participation in currency destruction operations involves very grave risk. Communist customs through some leak (presumably Dutch) have apparently learned of our destruction of currency for Netherlands ConGen (ConGentel 2491, June 25). Evidence Communist customs have learned of this is conclusive (direct statement customs official to president American Association). Rumor we are able destroy currency has become widespread throughout city. To illustrate extent disseminate rumor, it has been referred to by ConGen Chinese employees, representatives British, European firms and visa applicant; also story freely discussed Jewish club last week-end. This is alarming development, signifying we must employ unusual circumspection henceforth. Undoubtedly we are being closely watched

⁴⁹ For correspondence on this subject, see pp. 1261 ff, *passim*.

⁵⁰ Not printed.

and any action which Communists might construe as illegal will be noted for possible later use against US.

In view foregoing ConGen feels we cannot afford expedite currency destruction by any action, direct or indirect, which might be attributed to US. Even detailed advice re certificate procedure employed when currency is destroyed might embarrass US if Americans should be caught in act destroying currency and confessions extorted from them. However, I might be willing in especially meritorious case to outline to some trusted American citizens how to form committee witnesses, schedule currency, carry out destruction and prepare certificate on board *General Gordon* after it sails. This would only be worthwhile if Treasury is prepared make good currency destroyed on basis complete certificate by several reputable American citizens, with no consular participation or witness.

Please advise urgently whether Treasury is prepared entertain reimbursement requests based on destruction certificates signed by private American citizens of good repute.

McCONAUGHY

893.5151/7-1449

The Secretary of State to Mr. J. A. MacKay, Vice President of the National City Bank of New York

WASHINGTON, September 12, 1949.

MY DEAR MR. MACKAY: The receipt is acknowledged of your letter dated July 14, 1949 ⁵¹ concerning the possibility that the National City Bank of New York through its branch in Shanghai, China may be asked to assist in obtaining foreign exchange to be used to purchase commodities urgently needed in Shanghai, particularly fuel oil and cotton. It is understood that your inquiry relates specifically to the question whether the anticipated transactions might be contrary to United States law or antagonistic to the foreign policy of the United States, and not to business or financial risks which might be assumed by the National City Bank.

This letter is designed to confirm what may have been understood informally in conversations which officials of the Department have had with a representative of the National City Bank. The Department does not regard the proposed transaction described in your letter as being contrary to the present foreign policy of the United States. Moreover, the Department knows of no law or regulation of the United States Government which might be construed to prohibit the importa-

⁵¹ Not printed.

tion into the United States of currency or other negotiable instruments, or the establishment of credits in favor of persons domiciled in, or acting on behalf of principals in, Communist controlled areas of China. However, the Department can give no assurances as to future United States policy in this respect, nor can it take any responsibility for the legal and banking risks involved, such as the risk that the notes and other instruments may be claimed to have been unlawfully expropriated or the risk that the credits so established may be the subject of adverse claims.

The following additional considerations may help to clarify the problems confronting American banks having branches or correspondents in China.

(1) The United States Government has not extended any manner of recognition to any political entity in China other than the National Government of the Republic of China with its capital at Canton.

(2) The United States Government has no present plans for the freezing or blocking of any category of Chinese assets in the United States.

(3) The Department of State would be willing to consider requests by the National Government of the Republic of China for the certification (under Section 25(b) of the Federal Reserve Act, as amended) of official Chinese assets in the United States.⁵²

With respect to your inquiry as to the status of the Bank of China, New York Agency, it is the understanding of the Department that the Bank of China, New York Agency, continues to act as the agent of the Bank of China, the head office of which is at Canton. Officials of the Bank of China, Canton are reported to be confident that the Bank of China, New York Agency, will continue to be faithful to orders and instructions issued from the Bank's offices in Canton and Hong Kong. You are undoubtedly aware that foreign branches of the Bank of China serve as fiscal agents for the National Government of the Republic of China, the Central Bank of China and other official agencies and instrumentalities of that government. It is possible that additional information concerning the status of the Bank of China, New York Agency, may be obtainable from the Commissioner of Banking of the State of New York.

It is trusted that the preceding provides the clarification requested in your letter of July 14, 1949.

Sincerely yours,

For the Secretary of State:

J. BURKE KNAPP

Director

Office of Financial and Development Policy

⁵² On October 18 Ambassador Koo, on behalf of the Chinese Government, certified to the Secretary of State the names of persons with authority to control property with the Federal Reserve Bank of New York to the account of the Central Bank of China (893.51/10-1849).

893.515/9-649: Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 17, 1949—6 p. m.

1909. Treasury advises not possible deviate from instruction Deptel 806 Apr 29 to meet situation urtel 3673 Sept 6. However, Dept advances following alternative courses, for which risks ConGen and private American citizens should be assessed and assumed by ConGen and individuals concerned, respectively.

1. ConGen proposals urtel 3673 and instructions Deptel 806 could be reconciled by ConGen temporary appointment three responsible private American citizens as acting consular agents accordance Regs⁵³ 102.288 to supervise, witness destruction and complete all other requirements Deptel 806 Apr 29 including preparation certificate for deposit with ConGen before boarding *Gordon*. Treasury states will honor certification submitted by duly authorized representatives ConGen. Treasury will not recognize destruction for account any one individual in excess \$2000. Treasury has no authority to make reimbursement except upon receipt of signed certificates of destruction prepared as outlined Deptel 806. ConGen should cable at earliest date full details of certifications delivered to him for action here as American citizens will undoubtedly desire reimbursement upon arrival U.S. Appointments would be confidential and oral in the sense that no appointment papers held by acting agents. Agents would serve without compensation and be bonded with minimum penalty \$5000 premium \$4 or \$5 to be paid by them. If you proceed this course, Dept will arrange bonds with Treasury upon receipt report of names acting consular agents and bonding company selected, and statement that premium will be paid by agent.

2. Evacuating American citizens might convert US currency at banks for PN to be turned over ConGen as special deposit with understanding ConGen will utilize to extent feasible for its expenditures and transfers other posts China, payments to be made by Dept in US at exchange rate current when drawn for disbursement. Department should be informed dollar amounts or equivalent taken over from each person for disbursement. Dollar payments in US would be made to accounts individual American citizens on basis to be arranged. ConGen should obtain written acknowledgement from each depositor that such deposits accepted on basis protective custody without any acceptance of responsibility by ConGen or US Govt for conversion into US currency or for loss or decline value resulting circumstances beyond control ConGen. In this instance ConGen would have problem avoiding acceptance deposits of currency arising out of black market operations. This might be accomplished by requiring bank receipts indicating PN purchased with US notes. Dept recognizes that American citizens purchase of and deposit by ConGen abnormal amounts PN might arouse suspicion, but suggests possibility safely employing this means meet pending terminal wage and bonus payments and current operating expenses.

⁵³ Department of State Foreign Service Regulations.

ConGen authorized in its discretion follow course (1) above. Dept desires ConGen not proceed course (2) without prior authorization subject Dept receipt ConGen report re probable magnitude transactions, possibility disbursement, risks involved, etc. However, if ConGen believes course (2) feasible and more desirable than (1) and if time does not allow further consultation Dept, ConGen authorized proceed in its discretion.⁵⁴

ACHESON

893.5151/9-2049 : Telegram

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

PEIPING, September 20, 1949—11 a. m.

[Received 2:27 p. m.]

1577. Gold 150,000, BH [*British pounds?*] 1500, US 3700. In view 55 percent increase official rate exchange since September 1, appearance large denomination notes, and overall worsening food picture, present stability prices surprising. Communist practice staggering official payrolls throughout month, heavy taxation (merchants now preparing for payment business income tax for first half 1949 and for autumn period house and other taxes), and apparent dumping grains at prices below those prevailing in country prevent sharp rises prices. This however achieved only at cost general business stagnation and increasing impoverishment city. These counteract effects currency inflation and price stability reflects depressed economy not economic strength and prosperity.

Sent Department 1577. Department pass Shanghai 989.

CLUBB

893.515/10-1949 : Telegram

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

SHANGHAI, October 19, 1949—10 a. m.

[Received October 19—8:15 a. m.]

4400. Please inform Treasury. Re mytel 4248, October 10.⁵⁵ Representatives private Chinese Commercial Bank acting as fiscal agent Communist Bank China asked manager Bank America ostensibly as casual inquiry re feasibility destruction US bank notes by this Con-

⁵⁴ In telegram No. 3914, September 19, 11 a. m., the Consul at Shanghai indicated he would use the Department's authorization only in grave emergencies (893.515/9-1949).

⁵⁵ Not printed.

sulate General as means transfer US dollar assets now held Shanghai chiefly by Bank China and Peoples Bank. Manager Bank America disclaimed knowledge any incineration US bank notes by Consulate General for private concerns [and] individuals as he believed procedure contrary US law and Communist regulations.

Believe this approach substantiates our view rumor cited mytel 3686, September 7^{55a} deliberately circulated by Communists themselves to embarrass US. On other hand, may be endeavor to pressure US into accepting US notes held by Bank China for disposal as means facilitating transferal funds to US at no cost to Communist Bank. Obviously such action most inadvisable.

Companies shipping US notes to USA [charge] 3 percent freight plus 3½ percent war risk which presumably Communists have paid on shipments mentioned mytel 4013, September 24.⁵⁶

As rough guess, Bank China Shanghai may hold upwards 12 to 15 million in US bank notes and gold bullion most of which Communists would like to transfer abroad.

Apparent anxiety Bank China transfer US dollar exchange holdings also illustrated by insistence foreign exchange purchases US dollars 2000 and over be remitted as telegraphic transfers.

McCONAUGHY

893.5151/11-849 : Telegram

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

[Extracts]

SHANGHAI, November 8, 1949—11 a. m.

[Received November 8—3:42 a. m.]

4704. Please pass Treasury, Federal Reserve Board, Commerce. Foreign bankers Shanghai consider vaunted financial stability claimed by Communists at Shanghai more apparent than real, due stagnant condition foreign trade and as new *jmp* currency unbacked by anything approximating adequate reserves *valuta* or commodities. Dubious whether immediate hard cash assets Communist banks Shanghai amount to \$50 million, if that much, as high maximum estimate foreign currency reserves [available for?] purchases foreign imports, all other uses, aside from amounts currently derived from exports, emigrant remittances used immediately to offset import exchange allotments.

^{55a} Not printed.

⁵⁶ Not printed; it reported shipments of United States currency from Taku Bar, one on June 29 of \$300,000, and one scheduled for September 26 of \$3,000,000. The freight rate on both shipments was 3.3%. (893.515/9-2449)

Hopkins, President Shanghai Power Company, reports consensus group important responsible Chinese private bankers, given informally, that Communist revenues Shanghai cover only 30 percent their operating costs.

Shanghai clearing house handled 2,612,000 checks in October with total turnover *jmp* 1,572,599, increases of 651,000 checks and *jmp* 599,418,000 over September. Reopening interior markets long closed by civil war and interruption rail inland transportation expected accelerate demands for Shanghai manufactured goods as reintegration domestic economy progresses. Same time shortages import goods and daily necessities expected exert progressively heavier pressures on prices, including foods as deliveries from rural areas and stocks diminish. Belief widely held Shanghai, Communists can maintain financial stability only so long trade stagnant, but that resumption trade activity will inevitably lead to hyperinflation as under Kmt. If disparity between revenues and operating costs indicated earlier this message correct, would appear hyperinflation inevitable whether trade lags or not.

McCONAUGHY

893.5151/12-249

*Memorandum by the Chief of the Division of Security (Nicholson)
to Mr. Robert W. Barnett of the Office of Chinese Affairs*

[WASHINGTON,] December 2, 1949.

According to a confidential source within the government, it was recently ascertained that one million dollars in United States currency was loaded aboard the S.S. *China Bear* at Taku Bar, China, a port near Tientsin and arrived at San Francisco on November 15, 1949,⁵⁷ destined for the Bank of America, San Francisco. The ship's manifest reported that the money was shipped by the Banque Belge Pour L'Etranger of China. In connection with this shipment it was also confidentially ascertained through the Bank of America that the shipment was received with the instructions to credit the total amount to the account of the Banque Belge Pour L'Etranger. No further instructions have been received concerning the money, it was stated. It was further ascertained that this money originated with the People's Bank of China but that the transfer was handled through the Banque Belge Pour L'Etranger. According to the source's informant the

⁵⁷ For earlier shipments of such funds, see footnote 56, to telegram No. 4400, October 19, 10 a. m., from the Consul General at Shanghai, p. 811.

People's Bank of China is controlled by the present Communist regime in North China.

A similar money shipment arrived at San Francisco about November 1, 1949. This money was destined for the Bank of California. The Bank of California reportedly received one million dollars in United States currency on November 2, 1949, which had been loaded aboard the S.S. Pacific Transport Lines, Inc. at Taku Bar on October 13, 1949. This currency was sent by the Banque De L'Indochine to the Bank of California. The money has been transferred to the French American Banking Corporation of New York City and deposited to the account of the Banque De L'Indochine.

It was learned that the United States Customs and Treasury officials are cognizant of these transactions.

This matter was brought to the attention of the Department in view of the fact that the money appears to have been transferred into the United States through Chinese Communist controlled sources. In this connection the confidential source furnishing the report has asked to be advised of any information available at present or in the future which would be pertinent to internal security interest.

893.24 FLC/12-749

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the note of May 4, 1949 and the *note verbale* of August 18, 1949 from the Secretary of State to His Excellency regarding installments of principal and interest due the United States as of May 1, 1948 and 1949 under Sales Contract No. W-FLC(CH)338, as amended by Supplemental Agreement No. 1, sometimes referred to as the "China Dockyards Contract."

The Secretary of State regrets to have to inform His Excellency that payment of the installments of principal and interest in question appears not to have been received as yet, nor has any reply to either of the two notes of the Secretary of State been received.

It is requested that the views of the Government of China regarding the proposed arrangements outlined in the note of May 4, 1949 be conveyed promptly to the Department of State so that the statement of principal installments and interest which was submitted to His Excellency with the note of August 18, 1949 may be revised if necessary. It is also requested that the steps being taken by the Government of China toward the payment of amounts in arrears under the Contract in question be clearly indicated.

WASHINGTON, December 7, 1949.

893.5151/12-1049

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 10, 1949.

Symptomatic of the difficulties inherent in China which operate against any Chinese Government under present circumstances is the fact that the official rate of exchange between the U.S. dollar and the Communist currency has moved since April of this year from 1 to 600 to the present 1 to 18,000.

W. W[ALTON] B[UTTERWORTH]

893.51/12-1549 : Telegram

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

SHANGHAI, December 15, 1949—4 p. m.

[Received December 16—1:27 a. m.]

5241. Manager American Asiatic Underwriters told by official People's Insurance Co., high level decision reached Peiping that corporations organized under Chinese law must divest themselves of foreign shareholders. This policy to be initiated about March 1950 with final liquidation to be concluded by June 30. No indications re terms on which liquidation foreign interests would be permitted, presumably unfavorable. Uncertain if decision applies only to financial institutions or Chinese corporations generally. Possibly foreign shareholders may be forced accept payment in Communist government bonds (mytel 5229, December 15⁵⁸). Will follow report developments.

Please pass Commerce for information American banks, their clients.

McCONAUGHY

893.515/12-2049 : Telegram

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

HONG KONG, December 20, 1949—10 a. m.

[Received December 20—8:05 a. m.]

Cantel 1339. At dinner December 15 S. Y. Liu, former Finance Minister, stated that prior removal of gold stocks from West China

⁵⁸ Not printed.

to Taiwan approximately 1 million ounces gold stored Taiwan plus 800,000 ounces stored Bank of Taiwan to support currency. Estimated 600,000 to 700,000 owners [ounces?] removed from West China.

Thus at end November total gold holdings of Chinese Government estimated about 2½ million ounces. Liu states other types foreign exchange held in negligible amounts only.

STRONG

893.5151/12-2349

*Memorandum of Telephone Conversation, by Mr. Robert W. Barnett
of the Office of Chinese Affairs*

[WASHINGTON,] December 23, 1949.

Mr. Christelow⁵⁹ telephoned Mr. Barnett on Friday December 23, stating that word had been received from London that the British Government intended to take action on Chinese sterling in the near future. The economic justification for this action is that Chinese sterling is one of the main sources of discount sterling. The intention is to block the some three million pounds of sterling on deposit permitting withdrawals for only bona fide commercial purposes. Also under consideration is the blocking of Hong Kong sterling. While this action when taken will be justified on economic grounds, the British Government was aware of its political implications. By taking this action they will prevent the Nationalist Government from dissipating its sterling assets. These assets may in due course be considered to be the property of the Chinese Communist Government and a claim against them is anticipated. It is the view of the British Government that control over these assets will provide them with a useful bargaining weapon in their discussion with the Chinese Communists regarding conditions for recognition.

Mr. Christelow stated that no time had yet been set for taking the action contemplated. However, he could say that the action would not be taken over Christmas week end.

Mr. Christelow informed Mr. Barnett that he had made known the above facts to the Treasury Department which had indicated to him no special concern in the matter. However, because it had political aspects he wished to have the proper authorities in the State Department informed and would be willing to discuss it with them on Tuesday of next week if they so desired. Prior to Tuesday he could be reached on Ordway 3293.

⁵⁹ Fred Christelow of the British Treasury and Supply Delegation in Washington.

893.5151/12-2849

*Memorandum of Telephone Conversation, by Mr. Robert N. Magill
of the Office of Chinese Affairs*

[WASHINGTON,] December 28, 1949.

Mr. Cristelow telephoned with reference to a previous conversation he had had with Mr. Barnett regarding institution of controls by the Bank of England over sterling held by residents of China. He stated that he had just received the Bank of England's orders making the controls effective as of December 23 and that he would be glad to send copies to us. Mr. Cristelow acknowledged that at the time he notified Mr. Barnett that controls would be imposed, they had in fact already been applied.

Mr. Cristelow continued that China and Formosa were being dealt with in separate categories under the control procedure, but that this did not mean any difference in actual treatment. In response to my inquiry, he stated that so far as he knew the controls applied only to sterling accounts in the United Kingdom and did not apply to Hong Kong dollar accounts.

TRADE POLICY OF THE UNITED STATES TOWARD COMMUNIST-OCCUPIED CHINA

I. BASIC POLICY RESPECTING TRADE CONTROLS AND NEGOTIATIONS WITH THE BRITISH IN EFFORTS TO IMPLEMENT SUCH CONTROLS

898.00/1-549

*The British Embassy to the Department of State*¹

Continuation of paper on China attached to Sir Oliver Franks's² letter of 5th January 1949³ to Mr. Lovett.⁴

Economic Effects

The main economic effects of a Chinese Communist advance depend again on whether the advance is stopped at the Yangtze or continues over South China. The main fields in which our economic interests might be affected (depending on the extent of the advance) would be—

- (a) British Commercial property and investments in China;
- (b) China-United Kingdom trade;
- (c) Shipping;
- (d) The economy of Hong Kong;
- (e) The economy of South-East Asia;
- (f) Overseas Chinese remittances.

In general it might be assumed that, wherever the Communists might get to, there would be an initial period before any stable administration could get going there, when foreign commerce and business generally would be at a low ebb. This could not, however, be a very much worse state of affairs than that existing in China at present, with the lack of easy and safe internal communications, extremely inflated prices, the restrictive attitude of the present National Government towards foreign trade, shipping and business, and the prevalent corruption. During this period the economies of Hong Kong and South-East Asian countries generally would probably be affected mainly (and in the case of Hong Kong, seriously) by labour disturbances and refugees, but only to any great extent if the advance continued beyond the Yangtze. There is, too, a possibility that the Communists might decide to by-pass Shanghai, isolating it from its hinterland. In this

¹ Handed on January 11 to the Chief of the Division of Chinese Affairs (Sprouse) by the Counselor of the British Embassy (Graves).

² British Ambassador.

³ *Ante*, p. 2.

⁴ Robert A. Lovett, Under Secretary of State.

event the city would be faced with starvation, and not only would the danger to British life and property be increased, but we and the Americans would be under considerable pressure to supply it by sea.

In the longer term much depends on the attitude the Communists adopt towards foreign commercial and shipping interests, and towards Hong Kong as a foreign enclave on the one hand and as a well-run and well-organised entrepôt on the other hand. If one assumes a period of Communist opportunist policy, foreign trade and business with and in the Communist-dominated area will probably not vary greatly in quantity but should at least be less precarious—unless and until the threat of expropriation begins to be felt. Undoubtedly the maintenance or creation of a balance of visible trade using existing facilities (Hong Kong entrepôt, foreign shipping, foreign-owned insurance and commercial houses) would be a vital prop to a new Government, at least until it felt in a position to provide the facilities itself. And any Chinese Government would have to maintain facilities to provide for essential imports (rice, raw materials, etc.) which in 1936, a good year, amounted to 17 per cent of her imports. As against this, however, it must be assumed that a general tightening up of controls would occur with resultant restrictions on remittances and general trade.

The final stage of expropriation or expulsion of foreign commercial and shipping interests and investments, and the undermining of Hong Kong's economic prosperity, may not materialise for some time in view of the extent and essential nature of these interests compared for instance with those in Eastern European countries.

A more detailed consideration of these possible economic effects is given under the several heads below.

(i) *Chinese visible imports from Sterling Area*

United Kingdom exports to China, which amounted in 1947 to nearly £13 million, will probably be slightly less in 1948.

(ii) *United Kingdom visible imports from China*

United Kingdom imports from China, which amounted in 1947 to about £7 million, will probably be more in 1948. They consist chiefly of bristles (an important raw material, and China is the main source of supply), vegetable seeds etc., dairy produce (mainly eggs), tung oil and tea. Given financial and political stability and improved transport China could contribute far more than this insignificant amount to our requirements of agricultural produce and raw materials, but she could scarcely become a major source of supply for basic commodities. Most of this trade passes through Shanghai, and many of the areas from which the imports are drawn lie to the North of the Yangtze (the two chief exceptions being the southern province of Kwangtung and the island of Formosa). The effect of domination of China down to the Yangtze by a Communist government would therefore differ only in degree from that of domination of all China by such a government.

Unless it is prepared to face widespread suffering and discontent, any Chinese Government must foster at least enough foreign trade to pay for essential imports, of which rice, food-stuffs and raw materials form a high percentage. This need for essential imports would mean that a Communist administration would be under stronger pressure than the Nationalist Government to take active steps to increase the volume of exports, since it would probably be without any credits from foreign countries, and unable to draw upon such resources as the sterling credits acquired in this country by Chinese industrialists and financiers during the war, which have paid for a proportion of the capital goods sent to China in the last three years. We might therefore be in a better bargaining position than in present circumstances to obtain the sort of commodities we want from China, but the Chinese would undoubtedly want scarce and high priority goods in return.

Shipping

There is as yet no indication of what Communist policy towards foreign shipping will be. Independence of foreign vessels and the closing of the Yangtze to foreign shipping have long been objectives of Chinese nationalist feeling, but the Communists will certainly need shipping for coastal and river traffic, and their policy may well be determined by the amount of the present Chinese merchant tonnage which falls into their hands. British shipowners in the China trade are prepared to trade wherever trade offers.

(i) Coastal shipping between China, Hong Kong and South-East Asia

It is impossible to assess how much of the existing Chinese flag coastal tonnage, which now has the monopoly of the coastal trade and amounts to some half million tons gross, will become available to the Communists.

(ii) Ocean shipping

The ocean companies are concerned chiefly with Shanghai. Ocean shipping would not be affected if the Communists allowed foreign flag vessels to trade there, but would cease if they did not. If the Communists captured Shanghai's hinterland but not Shanghai itself ocean companies would probably continue their present trade in an attenuated form.

The extent of Chinese overseas tonnage is negligible. Therefore, if the Communists were obliged by economic necessity to use overseas vessels, British tonnage should obtain a share.

(iii) River shipping

The Yangtze, which is navigable by ocean going vessels and is China's main waterway, is at present closed to foreign shipping.

(iv) Assets of British shipping firms in China

The shipping firms trading in China and those trading with China, as well as the oil companies, all have extensive shore properties in every

port and in addition they own harbour craft such as the tugs and lighters in Tientsin, practically the whole of the dock and repair facilities in Shanghai and a considerable proportion of the harbour craft there as well. The value of these properties was valued in 1941 at £18 million.

The economy of Hong Kong

Subject to what has been said above, Communist domination of China down to the Yangtze would probably not affect Hong Kong's economic position if a strong resistance line could be formed at the Yangtze; it might even be benefited, more especially if the use of Shanghai as a port became more difficult and increased imports of essential food, petrol, oil, etc., for China were to be diverted, in whole or in part, through Hong Kong.

If the Communists dominated all China, they might provisionally wish for their own purposes to keep Hong Kong as a going concern in British hands. They might, however, take ruthless steps to acquire all Hong Kong dollar notes held in South China; this could only be partly successful unless the Chinese economy were prosperous and the Hong Kong dollar definitely on the decline—there would be no inducement to surrender Hong Kong dollars voluntarily except for a stronger currency. Hong Kong notes requisitioned by the Communist Government might be used indirectly to obtain sterling credits for purchases for the Chinese Communists or for the U.S.S.R. Shares of Hong Kong public utility and dockyard Companies would probably fall substantially, but it is considered unlikely that there would be an actual flight of British capital. If the Communists chose to carry on a cold war against Hong Kong on the economic front, they might be able, temporarily at any rate, to paralyse the economic life of the Colony by fomenting strikes.

Economy of South-East Asia

The most serious economic effects of a Communist-controlled China are likely to be—

- (i) the probable increase in Communist-inspired labour disturbances in South-East Asia;
- (ii) a serious refugee problem, particularly in Hong Kong, whose food resources will consequently be strained to the utmost;
- (iii) further disturbances in the rice-producing countries (Burma, Siam, Indo-China) leading to a decrease in the production of rice, on which we, India, and Ceylon rely to feed the increasing populations of our respective territories. Already rice production is lagging well behind pre-war and any decreases in the present inadequate production will have the greatest repercussions on our colonial territories and on the Asian Commonwealth countries. A decrease in rice consumption will provide fertile ground for Communist agitation. This—together

with general disturbances in other South-East Asia industries—would cause further disruption of the economy of the area with consequent adverse effects on the production of such vital commodities as rubber, tin, edible oils, etc., which are of such importance to world economic recovery.

WASHINGTON, 10 January, 1949.

893.00/1-549

*The British Embassy to the Department of State*⁵

Continuation of paper on China attached to Sir Oliver Franks's letter of 5th January, 1949, to Mr. Lovett.⁶

Possibilities of Counter-action

Certain measures for the emergency evacuation of British residents in China have already been taken. The Commanders-in-Chief, Far East, have for some time been considering the military aspects of the problem in relation to Hong Kong and South-East Asia. Action on the civil side is being taken to put Hong Kong into as great a state of preparedness as possible. The Chiefs of Staff have been invited to consider the strategic implications of the China situation in so far as it threatens the colony of Hong Kong. It is, however, desirable to consider what further measures are open to us to safeguard British interests in the Far East.

China

The only Power which could contribute financial, material or military resources for counter-action against the Chinese Communists in China is the United States. It is not known whether the United States Government is, at this stage, willing to take any additional action under these three headings.

As far as the United Kingdom is concerned, our best hope probably lies in keeping a foot in the door. That is to say that, provided there is not actual danger to life, we should endeavour to stay where we are, to have *de facto* relations with the Chinese Communists in so far as these are unavoidable, and to investigate the possibilities of continued trade in China. It may be that, in consultation with our friends, we shall have a bargaining counter by virtue of our being able to withhold certain essential imports which China must have if the Chinese Communists do not behave. We might be able to insist as a *quid pro quo* that the Communists should respect our trading position

⁵ Handed on January 11 to the Chief of the Division of Chinese Affairs (Sprouse) by the Counselor of the British Embassy (Graves).

⁶ *Ante*, p. 2.

and our properties in China. This will require further examination, but seems to offer the only possibility of counter-action in the immediate future. If the Chinese Communist administration fails to obtain effective control of the country, it may be possible to take advantage of internal strains as they manifest themselves to maintain and even to improve our position. In order to do this it is essential that we should not abandon our position in China, and we must aim to keep, at any rate, a foot in the door.

South-East Asia

It seems likely that it will fall to the Powers geographically situated in the the region to take their own measures to meet the Communist menace. It is more than ever essential that the most strenuous efforts should be made to clear up the situation in Malaya as soon as possible. Though it is very desirable that the measures taken by the Governments in the area should be co-ordinated, it is very doubtful whether in the present political situation in the region it would be possible to align the various territories publicly together. Burma, for example, would find difficulty in associating with French Indo-China and Indonesia, while the French and the Dutch might be equally reluctant to have such an association. Moreover, the Commonwealth countries primarily concerned, i.e., Australia, New Zealand, India and Pakistan, which all have a vital interest in the peace and prosperity of South-East Asia, would, on present showing, be unwilling to join in any activities involving support of the French and Dutch Governments in this area. It may, therefore, be that the United Kingdom is in the best position to act as the co-ordinating factor, though it would be necessary to consider the political consequences very carefully at each stage.

In these circumstances there might be advantage in our addressing ourselves to all the interested Powers, setting forth our view of the problems likely to arise as a result of Communist successes in China, and consulting with the Powers concerned as to the best method of dealing with the situation. It is desirable, so far as political considerations permit, to ensure that each territory was possessed of police and intelligence services, as well as the requisite legal powers, to deal adequately with any growth of Communist activity, and with these measures in view to arrange for an exchange of information (always provided that this is without risk to our own security) and for frequent consultation. The possibilities of doing this would be considered on receiving the answers to our communications to the various Governments.

WASHINGTON, 10 January, 1949.

611.9331/2-1049

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] February 10, 1949.

Participants: Mr. Hubert Graves, Counselor, British Embassy
Mr. Butterworth, FE ⁷
Mr. Dort, E ⁸
Mr. Whitman, ED ⁹
Mr. Reed, SEA ¹⁰
Mr. Magill, CA ¹¹
Mr. Sprouse, CA

Mr. Graves called at the Department today to continue the conversations, initiated in January, with respect to problems arising out of the developments in China. The discussion was largely devoted to the question of the attitude to be taken toward trade with Communist-occupied areas of China.

Mr. Butterworth explained that the recent changes in the Department had required attention to various other matters and that it had not been possible to resume the conversations with Mr. Graves until today. He pointed out that reports reaching the Department of the impending arrival of an American commercial ship at Tangku and other reports of trade going on between Hong Kong and North Korea, which probably flowed over into Manchuria, make it desirable to go into the question of trade with Communist-occupied areas in China.

Mr. Graves indicated that the British position on this subject was, in general, as set forth in the British Embassy's memoranda previously presented to the Department. In reply to Mr. Dort's query, he said that he had received no further information from London regarding the matter and that, while he knew that there was trade between Hong Kong and the north, he did not know what commodities were involved. Mr. Dort pointed out that consideration of trade policy should be with reference to all of China since no effective barriers exist on trade between Nationalist and Communist areas.

Mr. Butterworth gave a brief explanation of the President's decision regarding the cessation of ECA ¹² aid to Communist areas of China,¹³

⁷ W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

⁸ Dallas W. Dort, Special Assistant to the Assistant Secretary of State for Economic Affairs (Thorp).

⁹ Roswell H. Whitman, of the Division of Investment and Economic Development.

¹⁰ Charles S. Reed, 2d, Chief of the Division of Southeast Asian Affairs.

¹¹ Robert N. Magill, of the Division of Chinese Affairs.

¹² Economic Cooperation Administration.

¹³ See pp. 599 ff.

emphasizing that this information was to be treated as strictly confidential. He continued that this decision did not imply cessation of U.S. economic relations with Communist-controlled areas of China, but that such relations from now on should be through private channels on a *quid-pro-quo* basis, subject to minimum essential security safeguards.

Mr. Dort indicated that we were thinking of security safeguards in terms of export controls applied to guard against the possibility of trans-shipment via China to the European Soviet orbit of strategic commodities which we wished to prevent from moving to the latter area; that China's low level of economic development and industrial potential suggested that it probably would not be necessary to be restrictive of such exports so long as it appeared that they would be used in China, although we would of course embargo exports of direct military utility in any event. Mr. Magill added that it would be difficult to determine with assurance that strategic commodities were not destined for re-export, but that our general knowledge of the historical pattern of Chinese imports and China's rehabilitation needs, and information regarding end-use available to us from reliable foreign importing firms in China, might be used to arrive at reasonable estimates of Chinese import requirements.

Mr. Dort mentioned that the restoration of Sino-Japanese trade was an important consideration bearing on China trade policy.¹⁴ He said that while exact procedures had not been decided upon, it would appear that Japanese trade with the Chinese Communists should be on a *quid-pro-quo* basis and subject generally to the same security considerations as governed other trade with China. Mr. Butterworth pointed out that there was no reason why present "barter" arrangements between China and Japan could not be continued and expanded, but that it might be undesirable for too high a level of trade to develop which would place Japan in a position of preponderant dependence on Communist China. He indicated, however, that such a development would be unlikely in the near future.

Mr. Graves stated that the British were in agreement with us regarding the day-to-day necessity for ordinary commercial relations with Communist China, subject to minimum security restrictions on exports. He added, however, that this practical approach only touched the periphery of the central problem of how trade policy could be used to contain Communism. Mr. Butterworth responded that restoration of ordinary trade relations with Communist China was the most feasible means of maintaining contact between the Chinese Communists and the west, that the USSR did not appear to be in a position

¹⁴ For correspondence on this subject, see pp. 973 ff.

to provide China with very substantial imports, and that this approach might strengthen any resistance by indigenous forces in China to Soviet control. He agreed with Mr. Dort that the Chinese Communists might be capable of and sufficiently ruthless to forego trade with the west, but that it is unlikely that they would be willing to turn the clock back to the nineteenth century.

Mr. Graves expressed the opinion that the Chinese Communists, like all Chinese, had a natural instinct for profitable trade; that it would seem desirable, in line with Mr. Butterworth's thesis, to permit them to have ordinary items of trade in return for which the west and Japan could obtain valuable Chinese exports; that their need for petroleum and capital equipment provided us with significant economic leverage against them. Mr. Magill suggested that, although exports to China should not be controlled initially in a highly restrictive manner, the application of export controls over commodities important to the Chinese Communists would be desirable in that it would indicate our ability to adopt severe measures if necessary.

Messrs. Butterworth and Dort pointed out the need for multilateral action if effective security controls were to be exercised over exports to China. Mr. Graves indicated that the United Kingdom now controls all exports and could easily apply appropriate restrictions on exports to China, and that it should be possible to obtain the cooperation of the British Commonwealths in this regard. He referred to the possibility that the Philippines might be used as a point of trans-shipment to China. Mr. Butterworth responded that the Philippine Government now controls exports, that it probably could be counted on to prevent dissipation of Philippine foreign exchange through re-export to China, and that the U.S. would seek Philippine cooperation in its export control policy.

In response to Mr. Magill's inquiry regarding available means for controlling trans-shipment at Hong Kong, Mr. Graves stated that the U.K. could, of course, control exports to Hong Kong, but that the island had no export controls of its own and that the imposition of controls at Hong Kong would be an extreme measure, although it might eventually be necessary. Mr. Butterworth stated that, if Hong Kong could not control its exports, the U.S. would, in his opinion, have to treat the island as part of the China area in applying U.S. export controls.

Mr. Magill suggested that, in addition to governmental controls, it might be necessary to obtain cooperation from private firms, particularly American and British, in a position to supply China with important commodities, such as petroleum,¹⁵ from sources other than the

¹⁵ For further correspondence regarding petroleum, see pp. 1002 ff.

United States and the British Commonwealth. He added that, as an example, the Soviets were known to be very anxious to obtain lubricants. Mr. Butterworth stated that it probably would be desirable to permit the Chinese Communists initially to import lubricants and other petroleum products within normal Chinese requirements in order that they might develop a sense of dependence on the west.

Messrs. Butterworth and Dort emphasized the necessity for early preparation of some system for screening exports to China. Mr. Dort pointed out that there probably would be a trend in the United States towards relaxation of controls over commodities the supply of which was increasing. He continued that it would be desirable promptly to develop a more precise position on the application of controls, and stated that it would be very helpful to have an indication of further British thinking in this regard.

Mr. Graves stated that he would put the matter up to London immediately.

Executive Secretariat Files

Note by the Executive Secretary of the National Security Council (Souers), on United States Policy Regarding Trade With China

NSC 41

[WASHINGTON,] February 28, 1949.

The attached report by the Secretary of State on the subject is submitted herewith for consideration by the National Security Council and, at his request, is scheduled as Item 1 on the Agenda for the 35th Council meeting to be held on Thursday, March 3, 1949.

It is recommended that, if the Council adopts the enclosed report, it be forwarded to the President with the recommendation that he approve the conclusions contained therein and direct their implementation by all appropriate executive departments and agencies of the U. S. Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

[Annex]

Draft Report by the National Security Council on United States Policy Regarding Trade With China

The Problem

To Determine United States Policy Regarding Trade with China.

Analysis

The Chinese Communists now hold or have within their grasp the most important areas of China. They have it within their power in

the near future to consolidate their control of these areas by military or political means and to expand through the same methods, eventually if not shortly, their control over all of China. United States policy regarding trade with China should, of course, logically derive from and contribute to the implementation of over-all United States political and strategic policy towards Communist-controlled areas of China. The following analysis is directed to the formulation of such an over-all policy, with particular reference to the economic aspects of its implementation.

In the present world situation, the primary policy objective of the United States with respect to China should be, as concluded in NSC 34/1,¹⁶ "to prevent China from becoming an adjunct of Soviet power". Circumstances in China do not provide the basis for a positive United States policy that could be pursued towards this objective with any assurance of success and without risk of danger in greater or less degree. We are forced to choose, rather, the least disadvantageous of alternative courses open to us.

There are various political and military considerations of a strategic character which bear on the formulation of a United States policy directed towards the primary policy objective regarding China. However, the economic aspects of the situation, with which this paper is primarily concerned, are of major strategic importance, and it is in the field of economic relations with China that the United States has available its most effective weapons vis-à-vis a Chinese Communist regime. The following economic considerations are basic to an analysis of the policy issues involved: (a) The direct economic importance of China to the United States is not great. Private American investments in China are small and United States-China trade is of relatively minor significance; (b) Trade with China is indirectly of significant importance to the United States in that the achievement of Japanese self-support, in which the United States has an important strategic interest and for which the United States has undertaken considerable financial burdens, is to a degree dependent on access to the export surpluses of north China and Manchuria; (c) The predominantly agrarian economy of China could continue to function, if necessary, on a relatively self-sufficient basis at traditionally marginal standards of living; (d) The historical pattern of Chinese foreign trade has been for the most part with Japan and the western world, and a Chinese Communist regime will be dependent largely on a resumption of this trade pattern if it is to rehabilitate and expand China's existing industrial and transportation facilities; (e) The subsistence character of China's economy, in combination with China's serious shortages of

¹⁶ January 11, p. 474.

managerial and technical personnel, will not permit rapid or large scale formation of domestic capital except at the price of a drastic reduction of already marginal standards of living.

In the absence of an effective instrument in China, United States support of which could bring about defeat or containment of Chinese Communism, the primary immediate United States policy objective—prevention of Soviet domination of China for strategic ends—might be sought initially through either of two essentially alternative policies. The basic concept of one policy would be mobilization of the political and economic power of the western world to combat openly, through intimidation or direct pressure, a Chinese Communist regime. The alternative policy would be to augment, through permitting restoration of ordinary economic relations with China, such forces as might operate to bring about serious rifts between Moscow and a Chinese Communist regime.

The first policy would be designed either (*a*) to force the Chinese Communists, by the threat or application of severe economic restrictions, to resist Kremlin pressure and adopt domestic and foreign policies acceptable to the United States, or (*b*) to isolate China completely from Japan and the western world in an attempt to bring about the overthrow or collapse of a Chinese Communist regime. Failing in this, it would be hoped that such a policy would handicap and delay consolidation of the Communists' position in China and lessen their ideological drive into South Asia.

While this policy, if applied effectively, could undoubtedly be used to inflict considerable hardships on certain sectors of the Chinese economy, it is difficult to see how the necessary degree of concerted action could be obtained from all western nations so as to make effective the imposition of severe restrictions or embargoes on trade with China. Other western nations, particularly the United Kingdom, have investments in China much larger than those of the United States, and the economic position of Hong Kong is dependent on an active entrepôt trade with the Chinese mainland. British firms have expressed frequently their intention to continue doing business under a Chinese Communist regime, and the British Embassy has indicated to the Department of State its primary concern for the protection of British interests in China and for the position of Hong Kong.

The experience of Russia following the revolution indicates that a determined and ruthless leadership can survive and even consolidate itself in the face of extreme economic hardships aggravated by the imposition of external restrictions or embargoes. China's relative economic self-sufficiency at traditionally low standards of consumption should enable a disciplined and militant Communist regime to make-

shift in the face of economic restrictions and embargoes. Indeed, by painting itself in the role of defending China against foreign persecution, the Communist leadership might turn our action to its advantage and win to itself greater internal support.

Severe restrictions on trade with China would make the reestablishment of Japanese trade with north China and Manchuria exceedingly difficult, if not impossible, thereby offering the prospect of indefinite support of the Japanese economy by the United States. Moreover, the threat or application of extreme measures by the United States would at once provoke and justify Communist expulsion and seizure of American business and mission interests and properties in China. While such consequences for American interests in China would not, in themselves, constitute an important strategic set-back to the United States, they would represent the loss of opportunities for maintaining a flow of useful information on China and for continuing American cultural influence in China.

Finally, and most important, the course of action described above probably would compel the Chinese Communists to eliminate any divergences of opinion within the party and tend to drive the regime into a position of complete subservience to the USSR, thus making impossible of attainment the primary objective towards which it was directed. Such a policy would suffer from the serious strategical shortcoming of inflexibility. If, as would appear likely, it should fall short of its objective, the possibility of alternative courses probably would be foreclosed to the United States. The policy might be forced upon us, but should be adopted only after the failure of other courses had been clearly demonstrated.

As indicated above, the alternative policy for the immediate future would be designed to augment such forces as might operate to create serious rifts between Moscow and a Chinese Communist regime. Although the leaders of the Chinese Communist party are doctrinaire Marxists, politically hostile to the United States and other western nations, and predisposed to cooperate with the USSR, the germs of friction between a Chinese Communist regime and the Kremlin undoubtedly exist in the Chinese situation. The Soviet Union can be expected to make every effort to gain whatever material and political advantage it can from a Communist-controlled China. To this end, the USSR may attempt to alter the historical pattern of China's foreign trade, and will undoubtedly exploit its special position in Manchuria, as provided by the Sino-Soviet Agreement of 1945.¹⁷ The USSR is

¹⁷ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. x, p. 300.

likely to be confronted in this endeavor by a strong desire on the part of a Chinese Communist regime for improvement of China's economy, and by the facts that the Chinese collectively have a deepseated resentment of foreign domination, that as individuals the Chinese are by nature highly acquisitive and opportunistic, and that the Chinese Communist party is not now dependent upon the USSR for maintenance and expansion of its military and political position in China.

The interests of the United States would be served if operation of factors such as those indicated above were to result in successful resistance by a Chinese Communist regime to Kremlin attempts at political and economic exploitation of China. A restoration of mutually beneficial trade relations between China on the one hand and Japan and the western world on the other, and the progressively increased importance to China of such relations, might bring about serious conflicts between Kremlin and Chinese Communist policy, and thereby tend to produce an independent Chinese Communist regime. The United States should contribute to such centrifugal forces as may develop by permitting, so far as the United States is concerned, restoration under appropriate security restrictions of ordinary economic relations with China. It can be assumed that China-USSR rifts, if they were to occur, would be occasioned by Kremlin policy and actions, and that there is little the United States could do initially, beyond adoption of the policy here proposed, to contribute to creation of a conflict. However, in the event that frictions arose, the United States should be able to exploit them through positive political, economic and propaganda measures.

The United States should not allow such a course to be construed by the Chinese Communists as a soft policy. They should be made aware of the potential power of the United States, in collaboration with other western powers and SCAP,¹⁸ to impose severe restrictions on trade if a Chinese Communist regime were to demonstrate its determination to follow policies inimical to United States strategic interests. The immediate imposition of a system of controls on United States exports to China, although applied initially to effect a minimum of essential security restrictions, would serve to indicate United States ability and intention to deal drastically with China's foreign trade if necessary.

Thus, this policy would retain for the United States the degree of flexibility necessary to cope with the uncertain situation that lies ahead. At worst, if the Chinese Communists were to make this policy untenable by demonstrating their determination to follow policies inimical to United States strategic interests, thereby necessitating

¹⁸ Supreme Commander, Allied Powers in Japan (MacArthur).

adoption of a program of political-economic warfare against them, the United States would not have suffered a significant set-back by virtue of having followed this policy initially. The successful rehabilitation of China's existing industrial and transportation facilities will be a long-term undertaking, even though the most favorable assumptions were made regarding the capabilities of the Chinese Communists. Similarly, China is at such a low level of economic development that it is not likely that a Chinese Communist regime could, within the next generation or more, create an industrial base which, as an adjunct of Soviet power, would represent a security threat to the United States.

If a serious rift between Moscow and the Chinese Communists were not to develop, this policy might result, at least over the short run, in certain practical advantages to the western world—namely, the acquisition from China of commodities important to Japanese self-support and of considerable value to the world market, and some continued operation in China of private American and other foreign interests. There are indications that, in order to facilitate the resumption of production and foreign trade, the Chinese Communists may, during the early stages of their control, adopt a policy to permit some continued operation of private foreign enterprises. However, this is by no means certain, and the duration or effective application of such a policy would be much less so. It should be assumed that, after a possible initial period, the Chinese Communists will move either gradually or swiftly to curtail private foreign business in China.

SCAP represents, in effect, an "amtorg"¹⁹ in its control over Japanese trade, and the need of a Communist China for Japanese capital goods should give SCAP considerable latent bargaining strength vis-à-vis the Chinese Communists. On the other hand, Japan's natural dependence on China for food and industrial raw materials would provide the Communists with a potentially powerful leverage over Japan after the United States occupation and financial support had been withdrawn. This is a disadvantage, however, that must be incurred as a calculated risk unless the United States is willing to underwrite the Japanese economy indefinitely. The problem of how Japanese trade with China should be handled after the occupation is not dealt with at this time, but the tendency of a post-occupation Japan will certainly be to re-establish its natural trade relations with the Northeast Asia mainland. Meanwhile, SCAP should encourage trade with China on a *quid-pro-quo* basis, but should avoid preponderant dependence on Chinese sources for Japan's critical food and raw material requirements. Every effort should be made to develop alternative

¹⁹ Reference to the Amtorg Trading Corporation, official purchasing and sales agency in the United States of the Soviet Union, at New York.

sources on an economic basis, particularly in areas such as southern Asia where a need exists for Japanese exports.

The details of this course obviously cannot be outlined in advance. Security safeguards would require a system of controls to embargo all exports to China of direct military utility, and to screen carefully exports of a highly selected schedule of important industrial, transportation and communications equipment and supplies on the basis of end use. Whether controls should be effected by extension to China of the R procedure for Europe,²⁰ or by an expansion of the "positive list" of items in short supply, would depend on considerations of administrative feasibility. The screening of selected exports would be primarily to guard against the possibility that items of strategic value would become available to the USSR, eastern Europe or north Korea through direct export or re-export from China. Non-military items, the export of which to the European Soviet orbit if prohibited or restricted severely on security grounds, might well be permitted for export to China provided there were reasonable evidence or presumption of intention to use them for purposes related to the Chinese civilian economy. Beyond the control of exports for these purposes, and the usual restrictions on exports of commodities in short supply, private traders would be expected to handle with a minimum of restriction the non-strategic commodities that make up the bulk of China's normal foreign commerce.

In view of the possibilities for trans-shipment between Nationalist and Communist-controlled areas of China, controls would have to cover exports for the country as a whole, although it might be necessary to differentiate somewhat in treatment accorded the two areas. Japanese exports to China would be generally subject to the same considerations as governed the application of United States export controls. Similarly, British cooperation, with particular reference to the entrepôt center of Hong Kong, would be essential to the effectiveness of United States controls, as would also the cooperation of various other governments and of private firms, chiefly United States and British, in a position to supply China with important commodities from sources other than areas under the effective control of cooperating governments.

Conclusions

A. Under present circumstances, the primary policy objective of the United States with respect to China should be, as concluded in NSC 34/1,²¹ "to prevent China from becoming an adjunct of Soviet power".

B. A policy designed to combat openly, through intimidation or direct economic pressure, a Chinese Communist regime would be im-

²⁰ See also memorandum of March 22, p. 834.

²¹ January 11, p. 474.

practical of application, prolong the burden of United States expenditures in Japan, and involve the grave danger of driving the Chinese Communists into a position of complete subservience to the USSR. It might be forced upon us, but should be adopted only after the failure of other courses has been clearly demonstrated.

C. The United States Government should maintain its freedom of action by following initially a policy designed to augment such forces as might operate to create serious rifts between Moscow and a Chinese Communist regime. This policy would permit, so far as the United States is concerned, restoration, under essential security safeguards, of ordinary economic relations between China on the one hand and Japan and the western world on the other. It might enable, at least over the short run, the acquisition from China of commodities important to Japanese self-support, and some continued operation in China of private American interests. If the Communists should not by their actions make this policy untenable, the importance to the Chinese Communists of trade relations with Japan and the west might foster serious conflicts between Kremlin and Chinese Communist policy and thereby tend to produce an independent Chinese Communist regime. This policy would make it possible for the United States to exploit frictions between a Chinese Communist regime and the USSR should they arise, or to adopt a restrictive trade policy if the Chinese Communists were to demonstrate their determination to follow a course inimical to United States strategic interests.

D. Trade between Japan and China should be encouraged on a *quid-pro-quo* basis, but preponderant dependence on Chinese sources for Japan's food and critical raw material requirements should be avoided, and efforts should be made to develop alternative sources on an economic basis.

E. The United States Government should take the following steps in implementation of the policy set forth in paragraphs C and D above:

1. A system of controls should be established on United States exports to all China.

2. The system of export controls should include an embargo on all exports to Communist China of items of direct military utility, and should be used to screen carefully exports to all China of a highly selected schedule of important industrial, transportation and communications supplies and equipment on the basis of end use. Such screening should be primarily for the purpose of guarding against the export or re-export from China to the USSR, eastern Europe and northern Korea of commodities which the United States wishes to prevent from moving to such areas. Initially, in addition to items on the State Department's munitions list, the prohibited list should not be broader than the 1A list under the R procedure, and might be somewhat narrower. Careful quantitative control might be instituted over the remaining parts of the 1A list and possibly certain items on the 1B

list. All other exports to China should be permitted to move in accordance with normal commercial considerations.

3. Japanese exports to China should be made generally subject to the above considerations, and close liaison should be worked out within the United States Government to insure coordination of operations in this regard with SCAP.

4. The effective cooperation of other friendly governments should be sought wherever necessary to carry out this policy. Cooperation should also be sought from private American firms in a position to supply China with important commodities from sources other than areas under the effective control of cooperating governments, and other governments should be requested to do likewise with respect to private firms under their jurisdiction.

5. This policy should be reviewed constantly, in the light of Chinese Communist policies and actions, and the United States Government should make use of its economic position, whenever it appears feasible and appropriate, to intensify any conflicts that may appear between the Chinese Communists and the USSR and to increase the importance to China of trade with Japan and the west.

611.9331/3-849

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Council

WASHINGTON, March 3, 1949.

Subject: United States Policy Regarding Trade With China

Reference: NSC 41

The President has this date approved the Conclusions contained in the reference report, and directs that they be implemented by all appropriate Executive Departments and Agencies of the United States Government under the coordination of the Secretary of State.

SIDNEY W. SOUERS

693.119/3-2249

Memorandum of Conversation, by Mr. Stephen C. Brown of the Division of Commercial Policy

[WASHINGTON,] March 22, 1949.

Subject: Export Control Policy for China.

Participants: Mr. Graves, Counselor of British Embassy
 Mr. Sprouse, Chief, CA
 Mr. Magill, CA
 Mr. Martin, ITP ²²
 Mr. Brown, CP

²² Edwin M. Martin, Acting Director of the Office of International Trade Policy.

Mr. Graves called at the Department at 5 p. m. on March 21, 1949, at the invitation of Mr. Sprouse, to discuss the above subject.

Mr. Sprouse began the interview by inquiring whether Mr. Graves had yet obtained a reaction from the Foreign Office to the Department's views as discussed in a recent conversation. Mr. Graves said that he had heard nothing yet.

Mr. Sprouse then said that we had done a good deal more thinking about the problem and had reached a somewhat firmer outline of our policy with respect to the question of trade with China as affected by Communist control of North China and Manchuria. We had prepared two brief memoranda²³ for him, outlining our thinking, which he would probably want to transmit to the Foreign Office. In substance, we envisaged imposing on exports to China a form of control which we felt would insure against adverse results from the continuation of the trade, and would restrict it as little as possible. He suggested that Mr. Martin outline to Mr. Graves the nature of the controls we were considering.

Mr. Martin said that in essence we had in mind subjecting exports to China to the so-called "R-procedure" export controls which now apply only to Europe. We would, at the time of imposing the controls, issue a public statement explaining the reason for the step, in order to avoid the drawing of conclusions either by the Communists or by businessmen that we were restricting trade severely. He explained that the R-procedure was not in itself an export control policy, but merely a device to insure that all export shipments to a given area would require licenses. Under this system, all exports to Europe (and prospectively, to China) had to be covered by export licenses issued by the Department of Commerce; this gave Commerce a chance to approve or deny issuance on the basis of criteria which were determined by strategic considerations. In the European case, items on the 1-A list were usually denied to the Soviets and satellite countries, while items on the 1-B list were permitted to go only after careful scrutiny, and after satisfying ourselves that they were for normal peace-time uses. For the purposes of the R-procedure we had defined Europe in a rather broad sense, to include not only continental Europe but also Turkey both in Europe and Asia, and the whole of the Soviet Union, clear through to Vladivostok. We had not as yet decided definitely on the geographical extent of the proposed application of the R-procedure, since there was involved the question of the degree of cooperation we might expect from countries on the perimeter of China.

There was, for example, the problem of Hong Kong, which historically has served China as an entrepôt. It would not do much good to require licenses for China unless we could be assured that similar

²³ Not found in Department of State files.

controls would be applied to exports from Hong Kong to China, and this was a question on which we would very much like the views of the British Government.

Mr. Graves, pointing out that it would be useless to close up the loophole of Hong Kong so long as other nearby available transshipment points were available, asked what we proposed to do in the case of Japan and the Philippines, as well as Formosa. It was pointed out to him that Formosa would be included under the R-procedure as part of China. With respect to Japan, we were confident that SCAP would conform Japanese policy to ours; the procedure would no doubt be different, and in view of Japan's need for Chinese exports a considerable volume of trade would no doubt occur, but SCAP would, we felt, undertake to prevent shipment of strategic items to Manchuria or North China. The trade for some time to come would most likely be on a government-to-government, barter basis, and the Communists would simply find that Japan did not have available for delivery items of this kind. As for the Philippines, we recognized the possibility there and thought we might eventually have to ask the Philippine Government to impose similar restrictions, or alternatively to control our own exports to the Philippines on the same basis. Macao, which Mr. Graves also mentioned, we believed would be of relatively little importance, since it had not a deep water harbor and normally received most of its imports via Hong Kong.

With reference to the policy under which the export control would be administered, it was intended that it should restrict the trade with China as little as possible; a relatively short list of items of direct military significance (mostly 1-A items) was expected to be prohibited, while the trade in 1-B items would be watched carefully merely with the intention of preventing stockpiling or re-export to the Soviets or Soviet satellites in Europe or Asia. In general, it was proposed that shipments to China should be permitted so long as we were satisfied that they were destined for normal peace-time uses in China, and within reasonable quantitative limitations. Commodities not on the 1-A or 1-B lists would move without any restrictions. In this connection, it was pointed out that in practice probably the chief criteria would be consignee reliability and end-use; in their application it might be found that we would be able to oppose the expulsion of reliable western firms from China. This was not a primary objective of the proposed policy, but we would probably find that in order to obtain the necessary information concerning final destinations and end-use we would desire if possible to keep such firms in the China market.

Mr. Graves asked whether we had consulted any other Government concerning the matter. Mr. Sprouse replied that we had consulted none

except the British Government; we felt it necessary to coordinate policy with it before we could go further. Messrs. Martin and Magill said we were actively working on a concrete list of commodities to discuss with them very shortly, and hoped Mr. Graves would request an early reply from the Foreign Office.

Mr. Graves said he would pass on to the Foreign Office the substance of the interview and ask for a prompt reply.

841.503193/4-549

The British Embassy to the Department of State

MEMORANDUM

THE SITUATION IN CHINA

The position has again been examined by the competent departments in London in the light of the developments that have occurred since the review of December last. These developments all go to reinforce the tentative view already expressed that Communist domination of China must be regarded as inevitable.

In the accompanying summary the Foreign Office present their views on the measures which might be taken in defence of British economic interests in China. This Embassy would welcome the comments of the State Department on the assessment of the problems and on the proposed methods for meeting the probable threats to foreign interests.

WASHINGTON, 5 April, 1949.

[Annex 1]

Statement by the British Foreign Office

MEASURES IN DEFENCE OF BRITISH ECONOMIC INTERESTS IN CHINA

Continuation of paper on China attached to Sir Oliver Franks' letter of 5th January 1949 to Mr. Lovett ²⁴

Economic Considerations

The following is an assessment of the major economic problems of a Communist-dominated China, and of possible ways of exploiting to our advantage any economic weaknesses that may emerge. The economic long-term policy of the Communists will be on normal Communist lines and will be directed towards land reform, state industrialisation and the expropriation or expulsion of foreign interests, but it is assumed that in the initial period economic difficulties will be so

²⁴ *Ante*, p. 2.

great that the Communists will perforce move slowly towards these goals, and accordingly that they may be disposed to tolerate foreign interests for a time.

Communist economic weaknesses can be summarised under the following heads:

(i) *Finance.*

The Communists will have great difficulty in balancing the budget, increasing taxation, diminishing expenditure and maintaining confidence in their currency. They will face the same threat of runaway inflation as the present government but may be expected to take more drastic steps to deal with it.

(ii) *Food and Agriculture*

Before the war China normally imported about one million tons of rice a year. This figure will be decreased if the Communists control Formosa, but rice supplies will be insufficient. Internal distribution is another problem (see under *Transport* below). Foreign agricultural machinery, of which the Soviet Union and the satellites cannot supply much, will probably be desired but not immediately essential, nor, owing to the nature of rice agriculture in China, necessarily indispensable.

(iii) *Industry*

Industrialisation will require foreign capital, foreign capital goods and foreign technical assistance. It is doubtful whether the Soviet Union and the satellites can provide much of this.

(iv) *Transport*

Adequate distribution of food supplies and economic prosperity depend on the improvement of internal communications and the maintenance of shipping facilities. The Communists will depend on foreign vessels for their overseas trade in any case, and for coastal trade if the present Chinese mercantile marine is denied them. Sufficient river transport will, however, be available. But vast quantities of supplies will be necessary to restore the war damaged railway system, and transport may well prove to be one of the Communists' most serious weaknesses.

(v) *Minerals and Raw Materials*

China will be almost entirely dependent on non-Communist sources for supplies of rubber, oil, and fertilisers. She will be deficient in raw cotton. The most serious mineral deficiencies will be the ferro-alloy metals.

(vi) *Trade*

Foreign trade has in the past been relatively unimportant in China's economic life, and the Communists will no doubt continue the present Chinese policy of restricting imports to capital goods and basic essentials (oil, rubber, food, etc.). They may very probably wish to increase exports in order to be able to import more.

Although trade with China has lately been very small, non-Chinese merchant and industrial interests are established in China in such

strength that they conduct a very large proportion of China's trade with the rest of the world and operate a large number of industrial enterprises in China.

For example, the value of British commercial property alone was assessed in 1941 at £300,000,000 and to this must be added invisible earnings. This figure excludes subsequent war damage, but the present total value is still very considerable. If all non-Chinese interests were to cut their losses promptly and remove whatever property they could it would undoubtedly greatly increase the Communists' difficulties, but from the point of view of the interests concerned the financial loss, as most of the property could not be got out, would be not much less than if the Communists took over all these interests in the first place without compensation. In any case it has been decided on political grounds that British interests should be supported in their desire to keep their foot in the door in China as long as possible, and on economic grounds it would be regrettable to cut ourselves off from a potentially vast market for British goods and a potentially important soft-currency source of supply of essential imports (including eggs, tea, broad beans, bristles, soya beans and flour, and tung oil). With the great internal need in China and our own need for soft currency supplies, potential trade if conditions were at all normal might be at least double pre-war.

The best hope for Western interests to maintain themselves for some time longer in China seems to be in the presumed Communist need for the continued functioning of the public utilities, insurance, banking, commercial and shipping agencies and industrial enterprises until the Communists forcibly exclude such operations. Whatever economic weapons may be at our disposal for the purpose of protecting our economic interests in China it is considered that they should be held in reserve for as long as the Communists are prepared to tolerate their functioning. The probable results of any attempt to bring economic pressure to bear during the first phase would be to expedite the coming of the second phase in which the Communists are likely to attempt some form of expropriation.

On the assumption that the existence of foreign economic interests will only be tolerated for as long as their continued functioning is considered by the Communists to be in their own interests, and that a stage will come when some form of expropriation will be attempted, it is clearly of the first importance that we and the other Powers concerned shall endeavour to agree on a common line in the face of this threat. Our objectives in any consultations which may take place should be:

(a) to reach agreement with other powers to take no positive action for as long as Foreign interests remain reasonably unmolested;

(b) to reach agreement in principle with the other powers concerned on the joint application of possible future measures of economic

pressure against the Communists should these later prove necessary and expedient, on the understanding that they are in any case to be held in reserve until such time as the Communists begin to take definitely aggressive action against foreign economic interests. *Action on these lines would not of course preclude the denial to China, by agreement with other Powers, of goods of strategic importance, where such denial would be effective. Ew hypothesis* it is clear that any threats by British concerns to shut down their operations (even if concerted through the British Chambers of Commerce) would have little effect on the Communists. Any action would, therefore, have to be taken from outside China; and the summary of Communist economic weaknesses given above does not reveal any particularly strong card in our hand at the present time. The following possibilities present themselves:

(i) *The licensing of exports from the U.K. to China*

It is considered that such a system should be introduced only as a last resort, and in any case should apply only to certain materials which we know the Communists have particular need of. It would in any case be no use to introduce a licensing system except on the basis of agreement between the U.K. and other important potential suppliers, and it would obviously also be necessary to license exports to a number of Far Eastern ports outside China.

(ii) *Oil Sanctions*

It is possible that the denial to the Chinese Communists of oil supplies alone might prove to be a weapon of considerable value. Such a sanction could be applied effectively by agreement between the United Kingdom, the United States and the Netherlands.

(iii) *The withdrawal of British shipping*

This might prove an effective sanction but would be extremely difficult to operate since the licensing procedure for British vessels is totally unsuitable for such a purpose.

While Communist action against British interests in China may perhaps be delayed by suitable tactics, in the long run His Majesty's Government are likely to be faced with a similar state of affairs as regards expropriated British interests to that in Eastern Europe today, only on a larger scale. By this time we may be better placed in regard to the supply of goods which the Communists most desire, and may therefore be able to minimise our losses, perhaps through a trade and compensation agreement, or if necessary, by threats to impose sanctions, or possibly by a combination of the two.

WASHINGTON, 5 April, 1949.

[Annex 2]

Addendum to British Embassy Memorandum

Approximate figures of exports of important raw materials and other articles from Hong Kong to North Korea between 1st January and 26th March 1949.

<i>Article</i>	<i>Quantity</i>	<i>Value HK dollars</i>
<i>From U.S.A.</i>		
Lubricating oils	120,000 Am. galls. plus 20,000 pounds	385, 836
Glycerine	844 pounds	1, 500
Machinery	12 cases	29, 625
Motor vehicles	94	994, 960
Rubber tyres and tubes	of which a small quan- tity came from Japan	800, 000
Auto parts (U.S.A., N. China and Manchuria)		421, 768
Motor vehicles	5	69, 500
Diesel oil	200 tons	49, 000
Gasoline	294,710 Am. galls.	459, 229
Glycerine	unknown	45, 707
Lubricating oils	335,900 Am. galls. plus 190 tons	537, 538 219, 000
Auto parts	26 cases	50, 000
		HK \$ 4, 063, 463
<i>From Japan</i>		
Rubber tyres	Unknown	HK \$ 50, 000
<i>From India</i>		
Shellac	1500 pounds	HK \$ 48, 000
<i>From Java and Singapore</i>		
Rubber	4872 piculs	404, 200
Rubber	unknown	339, 060
		HK \$ 743, 260
<i>From the United Kingdom</i>		
Steel bars	70 bundles	unknown

841.503193/4-549

*Memorandum of Conversation, by the Chief of the Division of
Chinese Affairs (Sprouse)*

[WASHINGTON,] April 7, 1949.

Participants: Mr. Graves, Counselor, British Embassy
Mr. Butterworth, FE
Mr. Sprouse, CA

Mr. Graves called today by appointment to present a memorandum prepared by the British Embassy under date of April 5, 1949, on the subject of measures in defense of British economic interests in China. Mr. Graves stated that this memorandum did not represent a reply to the Department's recent request for British views regarding the action to be taken in implementation of a policy governing trade with Communist-held areas of China although it did contain general British views on the subject of trade policy.

During the discussion of the memorandum Mr. Graves emphasized that it was the British view that British interests should be supported in their desire to keep their foot in the door in China as long as possible and that whatever economic weapons might be at the disposal of the British for the purpose of protecting their economic interests in China they should be held in reserve as long as the Communists were prepared to tolerate their functioning.

Mr. Butterworth informed Mr. Graves that he was at a loss to understand recent information reaching the Department from the French Foreign Office indicating that the latter had gained the impression from the British Foreign Office that the U.S. Government was contemplating economic sanctions against the Chinese Communists. Mr. Butterworth continued that the position of the U.S. Government had been made clear in previous discussions with him (Mr. Graves) and that there had been no indication that the U.S. Government was contemplating such measures. He reiterated the previously expressed view with respect to ensuring that trade with Chinese Communist areas did not vitiate the objectives of East-West trade in Europe and added that this did not mean that the U.S. Government desired to engage in economic warfare with the Chinese Communists at this stage, although it did desire to have machinery in hand which would ensure sufficient control to prevent military supplies or certain strategic materials from reaching the Chinese Communists and to guard against stock-piling or trans-shipment to the USSR. Mr. Graves indicated his understanding of the U.S. Government's position and said that he had so explained it to his Government.

The conversation concluded with Mr. Graves' statement that he would continue to press the Foreign Office for an early reply to the Department's previous request for an expression of British views on the question of trade policy with Chinese Communist areas and its implementation.

Executive Secretariat Files

*Memorandum by the Secretary of State to the Executive Secretary
of the National Security Council (Souers)*

WASHINGTON, April 14, 1949.

Subject: Implementation of NSC 41.

Pursuant to NSC Action No. 123, October 6, 1948, the following progress report on the implementation of NSC 41, "U.S. Policy Regarding Trade with China", is submitted for the information of the Council:

1. Discussions have been held with the Department of Commerce regarding the relative merits of applying the R procedure to China,

and possibly to adjacent areas, versus adoption of an expanded positive list for licensing of exports to all countries. Commerce has indicated that it was inclined toward the R procedure for reasons of administrative feasibility, but that it desired the Department's views on the matter. Commerce apparently feels that a decision should depend to some degree on the character of British cooperation, particularly with reference to control of transshipments at Hong Kong, and awaits assurances of British cooperation before taking further action.

2. A meeting was held on March 22, 1949 with the Counselor of the British Embassy to explain United States policy and procedural plans regarding control of exports to China, to point out the importance of British cooperation and to request an early indication as to what the British Government would be prepared to do in this regard. Substantially the same ground had been covered in more general terms with the British Counselor in a meeting on February 10, 1949 at which time our desire for early action was emphasized. At both meetings the Counselor stated that he would put the matter up to the Foreign Office immediately and ask for a prompt reply, but no response has been received to date.

3. Officers of the Department have been reviewing the 1A and 1B lists with representatives of Commerce and the National Military Establishment for the purpose of formulating recommendations as to the treatment that should be given applications for export to China of particular items on the lists. NSC 41 policy has been applied thus far by an *ad hoc* advisory committee to Commerce in processing export license applications for China of items on the positive list.

4. SCAP has been advised through the Department of the Army that a proposal to SCAP by an American firm for exchange of Manchurian soyabeans against Japanese manufactured consumer goods would be consistent with NSC 41, provided the trade is confined to a cash reimbursement or exchange basis.

5. In response to their inquiry, the Department has advised the Standard Oil Company of California and the California-Texas Oil Company, principal American oil distributors in China, that, while there is no settled policy in this regard, we would interpose no objection to sales of kerosene and motor gasoline destined for Chinese Communist-controlled ports. We added, however, that it would be desirable to limit such sales to the normal civilian requirements of north China, and that we would prefer that, in general, no sales be made for shipment of petroleum to northern Korea.

6. It has been decided that the threat or application of economic pressure to gain Chinese Communist recognition of consular status would be tactically undesirable at this time and inconsistent with the policy set forth in NSC 41; that the exercise of consular functions,

including confidential communications, as distinguished from recognition of official status, should be sought on its own merits and strengthened by usage wherever possible.

The Department has instructed consular posts in Communist-controlled areas of China to certify invoices upon request. Discussions have been held with Treasury regarding the requirement by Customs of full value bond for entry into the United States of any cargo shipped directly from Tientsin without consular invoices, and regarding the possibility of having Customs apply such regulations as might inconvenience the import of north China commodities that have been transshipped via Shanghai or Hong Kong. The Consulate-Generals at Shanghai and Hong Kong have been instructed to be as strict as possible in applying invoice certification regulations to goods believed to have been transshipped from Tientsin for the United States. Action along these lines would be designed to emphasize the advantages of direct shipment from north China to the United States and to strengthen the position of the United States Consulate-General at Tientsin by encouraging exporters to apply for consular invoices.

7. Copies of NSC 41 have been sent under instruction to the Embassy at Nanking and to the United States Political Adviser at Tokyo.²⁵ The Department of the Army has sent a copy to CinCFE.²⁶

DEAN ACHESON

841.503193/4-549

The Department of State to the British Embassy

MEMORANDUM

The receipt is acknowledged of a memorandum dated April 5, 1949 from the British Embassy to which was attached a statement presenting the views of the Foreign Office regarding the measures which might be taken in defense of British economic interests in China. The Department of State finds itself in general agreement with the views expressed in the statement of the Foreign Office.

The Foreign Office statement points out that denial to China, by agreement with other Powers, of goods of strategic importance, where such denial would be effective, would not be precluded by agreement in principle with other Powers on measures of economic pressure against the Chinese Communists to be held in reserve for possible use should they later prove necessary and expedient. The Department believes that, for the time being, such denial to China should be considered only for goods of direct military utility and for those strategic goods, the transshipment of which to the USSR, eastern Europe and

²⁵ William J. Sebald, Acting.

²⁶ Commander in Chief, Far East (MacArthur).

northern Korea should be prevented. Furthermore, it is believed that goods should not be denied to China so long as they are of a non-military character and there is reasonable presumption that they are intended for use within the normal civilian requirements of that country.

The only means available to the United States Government for controlling exports from the United States to China is the institution of a system of export licensing. Export controls should be applied initially with a minimum of restriction on ordinary private trade with Communist-controlled areas of China, and this Government intends to issue a public announcement making this clear at the time export licensing is introduced. However, the existence of comprehensive controls over goods of importance to the Chinese economy should indicate to the Chinese Communists our ability, if occasion should require it, to impose further economic restrictions, and the introduction of a system of export controls may therefore tend to influence favorably the treatment accorded foreign interests in China. The symbolic and practical effectiveness of such controls would, of course, depend on multilateral cooperation in their application.

It is believed that the cooperation of SCAP can be obtained with respect to control of Japanese exports to China, and the United States Government intends to seek cooperation by such other Governments as may be necessary to give effect to the policy envisaged. It was with a view to ascertaining the attitude of the British Government on this matter, particularly with respect to the question of transshipments at the entrepôt center of Hong Kong, that conversations were held with the Counselor of the British Embassy on February 10 and on March 22, 1949. Copies of memoranda stating the Department's views in this regard were handed the Counselor by officers of the Department at the meeting on March 22.

The Department is not aware whether effective control of strategic exports to China by the British Government would require a system of export licensing for the United Kingdom and British Colonies, or whether it could be accomplished by other means. It is believed, however, that the Governments of the United States and Great Britain, perhaps in collaboration with other Powers, should be prepared on short notice to indicate to the Chinese Communists their ability to control the export to China of important commodities. The rapid course of events in China requires prompt action in this regard. The Department would, therefore, appreciate an early indication of the views of the British Government, whereupon the Department would be prepared to consult with the British Embassy regarding the detailed application of export controls.

WASHINGTON, April 21, 1949.

693.0031/4-2249 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, April 22, 1949—7 p. m.

1382. Dept on Feb 10 and Mar 22 discussed with Graves of Brit Embassy here proposed policy for treatment trade with China with special reference Communist problem North China, seeking Brit co-operation. Policy proposed envisages continuance trade normal civilian requirements but excluding items direct mil utility Commies and restricting shipments selected items 1-A and 1-B lists under R-Procedure where such items likely be transshipped Sovs or satellites. Graves promised seek reaction from FonOff. (See memos conversations transmitted Mar 16 and Apr 18 under Instr 183.²⁷ Memo this subj handed Brit Emb Apr 21 (copy pouched) in response FonOff statement transmitted Dept by Brit Emb memo Apr 5, copy pouched Apr 12).

In Dept's view China situation requires prompt action. US export controls applicable China now restricted Positive List items, making effective control US trade increasingly difficult as Positive List items decontrolled or placed on open-end quota. No public announcement trade policy for China made here, and trade constantly pressing for clarification. Appreciate your urging FonOff reply soonest view necessity action.

ACHESON

693.0031/4-2949 : Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary
of State*

LONDON, April 29, 1949—8 p. m.

[Received April 29—4:18 p. m.]

1661. Re Deptel 1382, April 22. Tomlinson,²⁸ Foreign Office, states decision at highest level required. British apparently particularly worried re application policy Hong Kong and had awaited recent arrival UK trade commissioner that colony in order discuss this aspect.

Foreign Office cannot indicate definite date when final decision possible but will expedite consideration.

DOUGLAS

²⁷ Not printed.²⁸ Frank S. Tomlinson of the Far Eastern Department, British Foreign Office.

693.119/5-449: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, May 4, 1949—5 p. m.

1517. Fol is text Deptel 841 responsive ConGen Shanghai's recommendations to general effect that it be authorized tell Chi Commies when they take over Shanghai that availability US imports will depend favorable recommendation ConGen, or alternatively that oil companies be requested agree tell Commies that petroleum imports depend large measure reports ConGen. ConGen envisages prerequisite favorable recommendation would be Commie assurances respect normal functions and prerogatives consular and diplomatic establishments and reasonable treatment private American interests.

[Here follows text of telegram No. 841, May 3, 7 p. m., to the Consul General at Shanghai, printed on page 936.]

ACHESON

693.0031/5-949: Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary
of State*LONDON, May 9, 1949—6 p. m.
[Received May 9—5: 27 p. m.]

1801. Deptel 1382, April 22, 7 p. m. Embassy has discussed matter of application R-procedure to China with Foreign Office several times but so far without result. Dening²⁹ today stated personal opinion that British Government would cooperate in application of procedure to China for purpose of preventing stockpiling by Soviets but matter still under consideration by ministers concerned. Dening added that British Government does not see urgency of matter as trade with China now almost at standstill.

DOUGLAS

693.0031/5-3149

The British Embassy to the Department of State

MEMORANDUM

The Foreign Office and other Departments of His Majesty's Government in the United Kingdom have given careful consideration to the

²⁹ Maberly E. Dening, British Assistant Under-Secretary of State for Foreign Affairs (Far East).

Memorandum dated the 21st April from the Department of State concerning the subject of controlling the export of strategic materials (other than arms and military equipment) to Communist China and North Korea. The questions involved have proved to be of considerable complexity and they continue to be under close inter-departmental study. The following comments represent the provisional views of His Majesty's Government on this proposal and they are presented in the hope that they will serve to explore the broader aspects of the problem.

2. The control of the direct export of strategic materials from the United Kingdom to China and North Korea would present no serious administrative difficulties. Under existing export control orders export licences are required for a specified list of strategic materials for all destinations, although there is provision to allow export of certain of these items without licence to the Commonwealth, United States of America, and to O.E.E.C.³⁰ countries. All that would be required would be the addition of China to the Export Licensing Department's confidential list of countries for which licences should be refused for security reasons. In addition to those legal powers there is a working arrangement with industry, by which the responsible production departments exercise control over the export of certain strategic equipment that does not lend itself to export licensing.

3. The control of direct exports from the United Kingdom to China would, however, be of no effect unless transshipment at a wide number of points could also be controlled. The State Department will be well aware of the large number of leaks which occurred when attempts were made to enforce the arms embargo for Middle East countries. Some of the countries to which strategic materials may be exported without a license would in practice be potential entrepôt centres for re-export either direct or through their overseas territories to China. Apart from the United Kingdom most of the O.E.E.C. countries have not yet imposed controls on exports to Eastern Europe, and the experience of His Majesty's Government in the working of these controls cannot encourage them in the belief that ready and effective co-operation on the wide scale necessary would be forthcoming in the event of any proposed extension of this system of controls to China.

4. The difficulties in the Far East itself would be very much greater since there are a number of areas there, some of them of great importance, which are traditional centres for entrepôt trade with China. As far as concerns exports from the United Kingdom, His Majesty's Government would, in the first place, have to delete Hongkong, Malaya and Singapore from the list of those Commonwealth territories to which strategic materials may be exported without licenses under existing regulations. Since these territories have their own require-

³⁰ Organization for European Economic Cooperation.

ments of strategic materials a system would have to be devised to ensure that genuine local demands were met. This would present practical administrative problems of considerable difficulty. The local Governments would then be required to ensure that there was no export or re-export of strategic materials to China.

5. Even this, although damaging to Singapore and Hongkong (in its hampering of the swift movement of goods which is essential to the functioning of an entrepôt) would not produce effective control unless similar action were taken to control exports to a number of other possible entrepôt points in foreign territory in the Far East. It is indeed difficult to believe that the placing of a ban on strategic materials when applied only to direct exports from the United States and the United Kingdom and re-exports from Hongkong and Singapore would have much effect on the communist strength. The more probable result would be to divert trade away from Hongkong and Singapore to their more accommodating neighbours.

6. The Foreign Office is not clear whether the State Department is contemplating the control of all the items in the list known as 1(a).³¹

7. If, in the light of the above assessment of the ability of His Majesty's Government to co-operate in the imposition of an effective control the United States Government has any concrete proposals to put forward the Foreign Office would be ready to give them very careful and sympathetic consideration. It is the present view of the Foreign Office that any detailed discussion of such proposals could be most effectively conducted at a technical level in London.

WASHINGTON, 31 May, 1949.

693.0081/5-3149

*Memorandum of Conversation, by Mr. Stephen C. Brown of the
Division of Commercial Policy*

[WASHINGTON,] June 3, 1949.

Participants: Mr. Graves, Counselor of British Embassy
FE: Mr. Butterworth
Mr. Merchant³²
CA: Mr. Sprouse
Mr. Magill
E: Mr. Dort
CP: Mr. Brown

On May 31, 1949, Mr. Graves called at the Department and handed Mr. Butterworth a Memorandum from the Embassy dated May 31,

³¹ List of materials of high military significance.

³² Livingston T. Merchant, Counselor of Embassy in China recalled for consultation.

1949 outlining the views of the British Foreign Office on our proposal to adopt a joint policy of controlling exports of strategic items to China. Briefly, the memorandum stated that the problems were of considerable complexity and were under continuing study; that in the Foreign Office view the difficulty was the problem of obtaining cooperation from the O.E.E.C. countries on the one hand and of devising an effective means of controlling the numerous potential transshipment points in the Far East itself on the other; that the Foreign Office would nevertheless be ready to undertake discussion in London of any concrete proposals we might have to make.

Mr. Butterworth inquired whether it was a fair inference from the memorandum that the British Government agreed in principle that some control of exports to China was necessary, asking whether the British Government would be prepared to say, in answer to a question put in the House of Commons, that it would permit unrestricted trade with the Communist Areas of China. Mr. Graves said that he thought the British Government would have to reply to such a question that it did not intend to permit unrestricted trade, and that the inference that some degree of control was necessary was correct.

Mr. Butterworth remarked that the present memorandum did not seem to be much of an advance over our previous discussions; that we had been discussing the China problem with the Embassy since February in anticipation of the fall of Shanghai; that now Shanghai had fallen, while we had made very little progress in reaching agreement on a policy for handling trade with Communist China. He felt we had not much time left to formulate such a policy, and said it was quite likely that we would be forced to make some kind of statement on our policy towards China trade in the near future, even before there was any opportunity to reach agreement with the British. He believed it quite possible that the President might ask for some such statement; it had not so far been requested, but if Mr. Graves should see anything of the kind without prior notice he must not be surprised. We would if possible try to inform the Embassy before such a statement was issued, but it might be necessary to come up with such a statement before we had an opportunity to notify him.

There was much discussion of the difficulties enumerated by the British memorandum. Mr. Graves was asked how far the area of possible transshipment in the Far East to which such controls should apply extended, in his opinion; he replied that they probably extended from Singapore and Malaya on the west to Japan on the east; he mentioned Manila, the Dutch East Indies and Macao in particular. He said it was the view of the British Government that the institution of effective controls by the United States and Britain would probably have to be preceded by political agreement with the O.E.E.C. countries to exercise similar controls; he also raised again the question

of the Philippines and asked whether we had had any conversations with them. Mr. Butterworth replied that we had not, pointing out that we had regarded British cooperation as the most important prerequisite to seeking cooperation from other countries. We were confident that SCAP's policies in Japan would be cooperative, so there was nothing to fear there.

Mr. Magill said perhaps we had not sufficiently emphasized the fact that we did not envisage eliminating the legitimate entrepôt trade of places like Hong Kong and Singapore; our proposal envisaged that the legitimate needs of these centers both for themselves and for transshipment to acceptable destinations would be satisfied; the criteria for control would be real end-use and ultimate destination of the goods involved. Mr. Graves said this would involve a wide range of export controls in Hong Kong and Singapore. Mr. Brown said that we understood that Hong Kong, for example, already had export control regulations affecting goods essential for the colony's welfare and rehabilitation, such as foodstuffs and a number of iron and steel products; and that in view of the nature of the probable trade pattern it seemed unlikely that the range of products to be covered by new controls would be greatly in excess of present Hong Kong controls. It might even be the case that Hong Kong's existing controls might be more liberally administered than at present, in view of our willingness to take into consideration Hong Kong's legitimate entrepôt trade.

Mr. Dort suggested that we might find that the range and strictness of the controls necessary were not as impractical as the Foreign Office appeared to think if we could discuss the problem in practical terms on a case-by-case commodity basis. He suggested that in the technical discussions which the British referred to they might find it not as difficult to exercise effective controls as they believed it would be.

After some discussion along these lines, Mr. Butterworth said that we would have a careful look at the British reply and get in touch with Mr. Graves as soon as possible. Mr. Butterworth indicated that we would have to consult with Commerce on the question of technical discussions before we could say whether we could undertake them in London.

893.50 Recovery/6-649

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] June 6, 1949.

The following steps were taken during the period from May 3 through June 3, 1949 in implementation of NSC-41:

1. On May 4, the Advisory Committee to the Secretary of Commerce considered a Department of Commerce recommendation that

the R procedure be extended immediately to China, Hong Kong, Macao and north and south Korea, irrespective of whether assurances of British cooperation have been received. The Department of State representative requested that a decision regarding the timing of such action be deferred to allow for further efforts to obtain British cooperation. He indicated that if a response from the British Government was not received in the next few days, it would be recommended that the Secretary of State take the matter up with the British Ambassador.

2. At its May 4 meeting, the Advisory Committee referred the technical aspects of applying the R procedure to China to the Operating Committee which, in turn, assigned to the Technical Steering Committee the task of sorting the commodities on the 1A and 1B lists into categories applicable to the pattern of trade with China.

3. On about May 5th, the British Embassy indicated that it expected that a response from the British Foreign Office to the Department of State's memorandum of April 21 would be received shortly. Consequently, it was decided to postpone, for the time being, a recommendation to the Secretary of State that he discuss the question of British cooperation with the British Ambassador.

4. On May 13th, no response having been received from the British Government, a recommendation³³ was made to the Secretary of State that he discuss the matter with the British Ambassador and/or with the British Foreign Minister³⁴ in Paris. The Secretary was unable to consider this recommendation before leaving for Paris.

5. On May 27, the Acting Secretary³⁵ called in the British Minister,³⁶ in the absence of the Ambassador, and emphasized to him the urgent need for British cooperation in the application of controls on exports to China. The Minister stated that he and the Ambassador understood the situation thoroughly and were pressing London for its views.

6. The Counselor of the British Embassy called at the Department of State on May 31 and left a memorandum dealing with the problem of British cooperation with the United States in controlling strategic exports to China. The memorandum did not indicate whether or not the British Government was prepared in principle to cooperate. It emphasized, however, the problems of obtaining cooperation by other western European sources of exports to China, and of ensuring adequate control of various entrepôt centers for trade with China. The memorandum indicated a willingness to explore the technical aspects

³³ Memorandum by the Director of the Office of Far Eastern Affairs, not printed.

³⁴ Ernest Bevin, British Secretary of State for Foreign Affairs.

³⁵ James E. Webb, Under Secretary of State.

³⁶ Sir Frederick R. Hoyer Millar.

of the problem, and proposed that discussions for this purpose be carried on at London.

7. The British memorandum was discussed at a meeting of the Advisory Committee on June 3. There was general agreement that further efforts should be made to obtain British cooperation and that we should accept the British proposal to hold technical discussions at London. It was also agreed that, in preparation for such discussions, the Technical Steering Committee would consider promptly the 1A and 1B lists³⁷ in their application to China.

693.0031/5-3149

The Department of State to the British Embassy

MEMORANDUM

The Department of State acknowledges the receipt of the British Embassy's memorandum dated May 31, 1949 concerning the question of controlling exports to China.

The Department understands that this memorandum, as amplified by its oral discussion with Mr. Hubert Graves, Counselor of the British Embassy, may be taken as indicating agreement in principle by the British Government that appropriate controls should be instituted over strategic exports to China.

The Department is glad to accept the suggestion contained in the Embassy's memorandum that the technical aspects of this policy be discussed in London. Plans are being made for representatives of the Departments of State and Commerce to go to London shortly for this purpose, and this Department will communicate orally with the British Embassy regarding the necessary detailed arrangements.

WASHINGTON, June 10, 1949.

693.0031/6-1149 : Telegram

*The Acting Secretary of State to the Ambassador in the United Kingdom (Douglas)*³⁸

WASHINGTON, June 11, 1949—4 p. m.

2010. Brit Emb presented memo May 31 in response Dept's proposals re coop application controls on exports China. Memo did not address itself to desirability controls in principle, but discussed difficulties adequate controls various supplying countries and entrepôt

³⁷ 1A list contained materials of high military significance; 1B list contained key industrial, transportation, and communications equipment and supplies.

³⁸ Repeated to the Consul General at Shanghai as No. 1174.

centers, and emphasized that Brit action wld depend prior satis solution such difficulties. In discussion memo Dept pointed out that it had felt Brit agreement in principle was prerequisite consultation other govts and that Brit memo represented no advance beyond position initial discussions in Feb. In response inquiry, Brit Counselor stated his belief Brit Govt wld not permit unrestricted export Chi and that Dept assumption correct Brit Govt agreed in principle desirability appropriate controls.

Memo concluded with statement Brit Govt willing consider concrete US proposals in technical level discussions, and that FonOff felt such discussions cld most profitably be carried on London. Dept handed Emb memo dated Jun 11 [10] stating its understanding that Brit memo reflected agreement in principle that appropriate controls be instituted exports Chi, and accepting Brit invitation discussions London.

Dept has inquired orally of Brit Emb whether Jun 20 acceptable begin discussions, and Emb referring question FonOff by tel. Suggest Emb London follow up. Dept desires make rapid progress this regard. Intends send Martin ³⁹ (ITP) accompanied by McIntyre ⁴⁰ from Commerce and probably one or two assts. Anticipate that discussions wld require about one week. Will forward info re detailed arrangements promptly upon Brit response.

WEBB

693.0031/6-1649 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, June 16, 1949—10 a. m.
[Received 10:08 a. m.]

2314. Foreign Office prepared discuss export controls China with Martin (Deptel 2010, June 11) but June 21 earliest feasible date. British representative will be Morland, Counselor Economic Relations Department.

DOUGLAS

600.119/6-1749 : Telegram

The Acting Secretary of State to the Ambassador in Korea (Muccio)

WASHINGTON, June 17, 1949—noon.

473. In near future US plans impose R-procedure export controls on US exports to China, Manchuria, Taiwan, Hong Kong, Macao,

³⁹ Edwin M. Martin, Acting Director of the Office of International Trade Policy.

⁴⁰ Francis E. McIntyre, Assistant Director of the Office of International Trade, Department of Commerce.

North and South Korea, possibly other Far East areas. R-procedure means that validated export license will be required for export of any commodity from US to those destinations. Purpose to prevent transshipment strategic items to USSR via China, Manchuria or other designated areas, prevent supply of goods to Chinese Communists for military purposes, and to provide means keeping under control exports to China and Manchuria of key goods of major importance to normal Chinese economy which may enable us influence to some extent orientation Chinese Communists and afford means protecting western commercial interests China. US is seeking cooperation other western powers, especially UK.

South Korea regarded here as potential transshipment area some importance due its proximity Manchuria and North Korea and therefore tentatively decided to include it R-procedure area. In order obtain cooperation UK and other powers necessary obtain effective control most important potential transshipment centers, and if R-procedure not imposed on shipments to South Korea would then be necessary obtain South Korean cooperation and rely entirely on such controls as that Govt could impose. This deemed unwise if avoidable, but Dept appreciates there may be adverse political reaction South Korea if US export controls are imposed on US shipments to that country.

Such controls wld not prevent South Korea obtaining goods to meet its own needs and wld affect only potential transshipments. Dept will of course inform you sufficiently in advance of date of announcement here to enable you to inform and explain to Govt. You shld not consult Govt at this stage, but Dept desires your own appraisal possibility adverse political reaction. Tele comment soonest, as needed here make final decision re South Korea for use Dept representatives sched discuss export controls with UK in London beginning June 20.

WEBB

895.50 Recovery/6-2049 : Telegram

The Ambassador in Korea (Muccio) to the Secretary of State

SEOUL, June 20, 1949—7 p. m.

[Received June 20—11:23 a. m.]

749. This is joint State-ECA radio. ReDeptel 473, June 17 (not serviced until June 20).

Part 1. From [economic?] point view felt that:

(a) Korea not sufficiently important transshipment point in area as to warrant application R-procedure.

(b) Non-ECA exports from US negligible in relation ECA exports, former averaging less than 2 percent latter in recent months. Transshipment of such non-ECA exports also negligible. Amount believed insufficient warrant application R-procedure.

(c) ECA exports to South Korea largely composed of "key goods of major importance [garble] Chinese economy". No ECA goods for Korea programmed for transshipment and aid agreement⁴¹ prohibits any transshipment without ECA approval. R-procedure would require further administrative review in Washington. Local ECA mission fears such reviews would handicap program.

Part 2. From political point view felt that inclusion South Korea and exclusion Japan and Philippines would have diverse political repercussions here. Felt that development of concept implicit in refrel can be best fostered in Korea by unified Korean-American controls administered locally. Felt also that with cooperation Korean Govt objectives can be obtained through effective administration:

(a) Paragraph 3 article V aid agreement which prohibits re-export ECA and similar commodities.

(b) Paragraph 1 article IV aid agreement which permits ROK⁴² to develop import-export program in cooperation with ECA.

(c) Export license system developed and administered in consultation with mission advisors.

MUCCIO

690.419/6-2149: Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, June 21, 1949—3 p. m.
[Received June 21—10:09 a. m.]

2390. For Gay,⁴³ CP, and Bell,⁴⁴ OIT, from Martin and McIntyre. First session with British today resulted satisfactory exploration problems involved application export controls China.

Session tomorrow considering detail of commodity and country coverage. We require soonest Washington suggestions selected list key 1B items essential for prompt UK control.

DOUGLAS

690.419/6-2149: Telegram

The Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, June 22, 1949—7 p. m.

2156. For Martin and McIntyre from Commerce and State.

"Reply urtel 2390, June 21, requesting soonest Washington's sug-

⁴¹ Signed at Seoul, December 10, 1948, Department of State, Treaties and Other International Agreements Series No. 1908, or 62 Stat. (pt. 3) 3780.

⁴² Republic of Korea.

⁴³ Merrill C. Gay, Assistant Chief of the Division of Commercial Policy.

⁴⁴ George L. Bell, Associate Director of the Office of International Trade, Department of Commerce.

gestions selected list of 1B items, TSC,⁴⁵ with *Ad Hoc* Group representatives in attendance; reviewed full 1B list. Recommendations listed below subject to understandings which follow:

1. Selected items listed below constitute a tentative list, since not possible in limited time to substantiate fully all selections or to be certain that list inclusive all items which might properly be subjected to prior consultation.

2. Criteria for selection were two: (1) importance to Chinese economy as indicated by past trade and present info re China's needs and (2) in few cases, info available here indicating considerable Chinese interest in, demand for specific items. In general, list was compiled not primarily as strategic list, but as list containing bulk of western bargaining strength vis-à-vis China. We are of course concerned about whole of 1B from strategic point of view, particularly in case of metalworking machinery, from which class only six items have been selected. Other items in this category are omitted because they have not figured in past trade and we see no likelihood legitimate civilian need in China; and you should emphasize to British that we would expect careful checking any requests for such items and some prior consultation on any abnormal request for strategic items patently unusual in China trade.

3. Believe every precaution should be taken not to let existence of selected list undermine U.S. position on full 1B list in discussion re Eastern Europe. All TSC participants stress importance of this point.

SELECTED 1B ITEMS FOR PRIOR CONSULTATION

Following items refer to Class 1B List (No. 4), dated June 1, 1949, and in possession of negotiators:

Metalworking Machinery

- Item No. 30. Machinery for drawing and/or tempering wire and tubing .015 inches in diameter or less
- 35. Metal-cutting tools, not incorporating industrial diamonds, for machine operations: (a) broaching cutting, (b) all carbide and carbide tipped, (c) gear cutting, except milling type, (d) lapping, (e) forming roll sets
- 42. Heading and upsetting forging machinery
- 43. Nut forging machinery
- 66. Honing and lapping machines, except gear, under 8 inches
- 73. Contour band sawing and/or filing machines

Precision Instruments, Scientific Apparatus, Electronic Testing Equipment, etc.

- Item No. 2. Precision multimeters, voltmeters, ammeters, ohmmeters, and micro-ammeters, including portable test types

⁴⁵ Technical Steering Committee of the Advisory Committee to the Secretary of Commerce.

7. Precision industrial indicating, controlling and/or recording instruments for pressure, flow temperature, humidity, or gas analysis, n.e.s.
14. Radio transmitting tubes, n.e.s.
15. Radio transmitting apparatus, n.e.s.
16. Radio receiving tubes, n.e.s.
17. Radio receiving sets, communications type
18. Chokes and communications transformers
19. Instruments transformers

Transportation Equipment

- Item No. 5. Locomotives and locomotive parts
6. Merchant vessels
7. Internal combustion marine engines, carbureter type, over 50 hp.
8. Railway freight cars, over 10-ton capacity
9. Brake equipment, and parts, (except handbrakes) for freight cars over 10-ton capacity
10. Components for freight cars over 10-ton capacity
13. All multiple-drive vehicles and multi-drive units and components
17. Watercraft, 1500 tons displacement or over

Chemicals

- Item No. 19. Phenoland derivatives
23. Rubber compounding agents, including accelerators, antioxidants, and carbon black
38. Chromium compounds, except chromes pigments other than chrome green oxide, zinc chromates and lead chromates

Chemical Equipment

- Item No. 11. Acid-resistant tanks, vats, kettles, piping and fixtures made of alloy steels
13. Driers for chemical processes; continuous screen cylinder, drum, rotary, spray, vacuum

Steel Mill Product

- Item No. 3. Railway rails, all sizes
4. Steel boiler tubes, seamless or welded
6. Steel wire, strand, cable and rope
8. Railway car wheels, tires and axles

Iron and Steel Manufactures

- Item No. 1. Precision micrometers and parts, all types
3. Drills and bits, hard surface steel and tungsten carbide type

Nonferrous Metals and Manufactures (Not including integral parts of other manufactures)

- Item No. 2. Copper: Cathodes, ingots, bars, wire, sheets, cable, tubing, alloys, scrap and all other forms
3. Brass and bronze: ingots, bars, rods, shafting, tubing, bearings, and all other forms
4. Lead: Concentrates, matte, bullion, pigs, bars, sheets, tubing, babbitt, solder, scrap and all other forms

5. Zinc: pigs, slabs, granulated, die castings, and all other forms

Electric Power Generating and Distribution Apparatus

- Item No. 2. Power transformers
3. Alternating current generators up to 400 cycles
 4. Direct current generators above 220 volts
 5. Rotary converters
 6. Steam and water turbines for industrial electric power generation

Petroleum Products

- Item No. 1. Petroleum products, n.e.s., excluding medicinals
2. Petroleum cokes
 3. Petroleum crude oil

Miscellaneous

- Item No. 6. Electrical steel (steel containing 0.50% to 5.0% silicon)
9. Diesel engines under 60 hp.
 15. Power-driven hoisting equipment for mines, including controls
 16. All ball and roller bearings and components
 26. Crushers and grinders for mining and chemical industries: (a) all crushers (b) grinders: rolls, ball, cage, rod, pebble and colloid mills

General

In addition above-listed items, we desire prior consultation shipments of any complete plant or integrated unit-process for metal-working, metal fabricating, or chemical industries.["]

[Commerce and State.]

ACHESON

690.419/6-2249 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, June 22, 1947—7 p. m.

2158. From Commerce and State for Martin and McIntyre: Mazzocco,⁴⁶ NME, in memo to J. M. George⁴⁷ has, in view absence actual NME clearance U.S. position paper, expressed NME position re export controls to Far East as follows:

"1. The objectives of the National Military Establishment are:

(A) to impede the growth of Communist military power in the Far East.

(B) to prevent the flow of goods which would increase the military power of all unfriendly areas.

⁴⁶ William Mazocco of the Department of Defense (National Military Establishment).

⁴⁷ Deputy Director of Export Program Staff of the Office of International Trade, Department of Commerce.

"2. Implementation of objectives:

(A) Application of export controls to the Far East by the United States on all strategically important commodities.

(B) Multilateral action by friendly governments in applying export controls to the Far East.

"3. The increasing spread of Communist influence in the Far East is recognized by the National Military Establishment as a threat to the security of the United States. This Communist influence and the resulting military power of those forces can be expected to have as a prime objective the maintenance of a large military establishment equipped with modern weapons.

"4. To develop a large military establishment, the Communist forces in East Asia will seek to procure machinery, equipment, and related materials for the production of the implements of war. Inasmuch as the USSR is itself endeavoring to import such items, it is reasonable to assume that the Communist forces in East Asia will look to the Western nations to supply the needed facilities and most of the materials and techniques required to develop a war machine of a high order.

"5. One method whereby the growth in Communist military potential can be impeded is by withholding exports of highly strategic commodities. Only to the extent that Western nations are successful in preventing the imports of such strategic commodities by Far Eastern Communist forces will their strategic plans in that area be frustrated.

"6. The objectives of deterring the growth of Communist military power in the Far East can best be achieved by multilateral action by Western nations in applying controls on exports of highly strategic commodities to that area. Accordingly, the participation of the United Kingdom and other friendly nations in the surveillance of Far Eastern Communists is necessary if controls are to be effected.

"7. The expansionist aims of Communist forces in the Far East, in addition to threatening the military security of the United States, represents an immediate danger to areas adjoining China. These areas, such as Indo-China, Malaya, Siam, and Burma are of the utmost importance to the United Kingdom, the French, and the Dutch. Any negotiations of a multilateral nature with Western nations should stress this point in connection with applying export controls to the Far East.

"8. The National Military Establishment desires to apply no contractionary pressures on the traditional commerce of the Far East. The areas in question are so backward economically that its trade has been essentially nonstrategic. The NME desires merely the exercise of restraints covering only that segment of the future trade which will consist of shipments of highly strategic commodities to potentially unfriendly areas."

Discussion between Mazzocco and George indicated NME prefers set forth its position and allow State-Commerce formulate U.S. position taking into consideration NME statement. NME position discussed *Ad Hoc* Group which concurs in general and believes U.S. position paper, as revised, adequately sets forth U.S. position at this time. [Commerce and State.]

690.419/6-2449 : Telegram

The Ambassador in London (Douglas) to the Secretary of State

LONDON, June 24, 1949—8 p. m.

[Received 11:41 p. m.]

2457. For State and Commerce from Martin and McIntyre.

1. Have participated, together with Embassy officers, in series meetings with British reference US proposals application controls over exports to China and adjacent areas. Principal agencies represented in discussions have been Foreign Office, Defense, Board of Trade, Colonial Office, and Joint Intelligence Board.

2. Following our understanding export controls now exercised by UK and pertinent colonies:

a) License required for UK 1-A list exports to all but specifically excepted destinations, which consist primarily Western European countries, US, British dominions and colonies. Licenses also required for exports of fairly large number short supply items, some which on US 1-B list. Furthermore, UK exercises administrative control through industry agreements over few items, e.g., petroleum.

b) In connection 1-A list there is difference in treatment as between non-excepted areas. In case China no restrictions at present, but shipments being reviewed with report little moving that destination. No knowledge, however, extent such items moving from UK through Hong Kong.

c) In addition short supply controls, Hong Kong and Singapore presently control exports UK 1-A list items to USSR but not to China or Korea. Presumably possible post audit 1-A goods shipped latter countries. However, data Hong Kong exports of doubtful accuracy and value.

3. Following are procedural possibilities for extension controls should UK policy permit:

a) UK could readily use existing controls to restrict UK 1-A exports to China and Korea.

b) 1-B items could be added to present export license list by administrative decision at Cabinet level without legislative action. Alternatively, Ministers also have administrative discretion bring 1-B items under license control by establishing separate new list controlled only to selected destinations. Such destinations could be limited to USSR, Eastern Europe, and/or Far Eastern areas.

c) Hong Kong and Singapore have machinery to expand present license controls regarding both areas and commodities, subject UK policy line.

4. British representatives unable give definite response US proposals, but their indication personal views, probable attitude Ministers, and definition issues provides basis following appraisal British attitude:

a) Military equipment now under strict control to China by UK,

Hong Kong, and Singapore. No objection exemption for military aid programs. UK felt no problem this area and discussion brief.

b) UK would be willing prohibit UK 1-A exports China with prior consultation exceptional cases or joint advance programming any 1-A commodities likely move in bulk for normal civilian purposes (e.g., aviation gas). Corresponding action Hong Kong and Singapore involves public action and considerable additional administrative load. Reference to central point for prior consultation purposes also burdensome. On basis reasonable value exemption from control and/or prior consultation plus willingness to program promptly where number of cases becomes large, will seek views Hong Kong and Singapore Governments with general disposition London authorities favorable our view. Action this regard almost certainly depends multilateral agreement as indicated 4(f) below.

c) Procedural aspects of parallel controls over select list of 1-B items to secure maximum bargaining advantages of general economic and political character discussed in detail with no apparent basic differences of view. British apprehensive damaging effect that additions selected key 1-B commodities to present UK 1-A list might have on UK exports generally because (1) it would create procedural obstacles and uncertainty for exporters to areas covered by license other than China, USSR and Eastern Europe, and (2) probability that Soviet and satellites and China would regard additional items as prohibited to them in same manner present 1-A list, thus cutting off urgently needed markets. Avoidance above consequences by creating separate UK list of 1-B items for which areas other than China, Korea, USSR and Eastern Europe would be excepted, accompanied by publicity indicating lenient treatment such list, objected to on grounds (1) would not be accepted by Ministers because open discrimination involved and (2) could not justify administrative burden new controls if they were not to be applied restrictively. Stressed present domestic political obstacles to new export controls.

d) Foreign Office representatives doubtful wisdom attempt demonstrate Western bargaining strength through stand-by controls selected 1-B items. Feels such action might elicit immediate Communist retaliation private foreign interests China or bring closer their probable eventual expulsion and expropriation. Inclined wait until Communists have by experience better appreciation importance trade with West.

e) UK regards use export controls for bargaining instrument trade or political objectives, as distinct from military security purposes, new principle in foreign policy requiring Ministerial approval.

f) British representatives believe that, even on assumption favorable attitude developed on 4(c), (d) and (e) above, Ministers would permit action only if necessary cooperation obtained other countries important as alternative sources and likely provide major trans-shipment facilities. Unfavorable experience to date in obtaining multilateral action Eastern European controls makes British cautious regarding China. However, British do not propose withholding policy decision until position other countries known. Countries whose cooperation required discussed without conclusion. British promised careful consideration this point with recognition complete coverage neither practical or necessary.

g) Reference Far Eastern entrepôt centers, British unwilling discriminate among colonies by applying controls from UK to Hong Kong or Singapore. Subject to UK policy decision, however, willing consider application selected 1-B controls at Hong Kong and Singapore. Appeared much concerned regarding possibility leakage via Macao and emphasized difficulty control exports Hong Kong to Macao. Suggested initial approach should be persuade Portuguese apply effective controls at Macao, failing which would consider imposition controls Hong Kong-Macao. Assumed that question NEI⁴⁸ and Indochina entrepôt controls could be handled as matter course in general approach metropolitan governments. British have been informed US will take necessary steps approach Philippines.

5. British wanted consider promptly specific minimum list 1-B items US wished controlled for bargaining purposes. Jointly compiled tentative list. Deptel 2156, June 22, which arrived during discussions very helpful and in general conformed list items selected here. Reftel list given British for further study. Understood we want watch and report other 1-B items as now done for Eastern Europe. Made clear by US that these negotiations no way implied change our desire to have controls in effect all 1-B items to Eastern Europe, and in due course to China.

6. Discussions have achieved, we believe, adequate understanding US purposes and proposals, and British position in all aspects. British now wish consult Hong Kong and Singapore and refer policy questions to Ministers. They anticipate at least 2 or 3 weeks required reach decision.

7. In view recent uncertainty position French, Belgians and Dutch regarding 1-A controls Eastern Europe, believe unwise approach these Governments reference China controls at this time. Also prefer joint US-UK approach based on UK agreement in principle, subject only concurrence other principally interested governments. Believe UK representatives share these views as to procedure. [Martin and McIntyre.]

DOUGLAS

690.419/6-2549 : Telegram

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

WASHINGTON, July 1, 1949—7 p. m.

2390. For Martin and McIntyre from Gay. Dept concurs (London's 2457 June 24) unwise approach Fr, Belg and Neth at present re China controls. Likewise prefer joint US-UK approach on conditions you indicate.

⁴⁸ Netherlands East Indies (Indonesia).

London's 2458 June 25,⁴⁹ Dept and ECA agree preferable not discuss China controls continental countries through ECA channels but desire keep such discussions separate diplomatic sphere. Believed use ECA channels may result question becoming too deeply involved Eur matters and perhaps decided on basis purely Eur considerations, while greater solidarity interests western powers in China may offer more hope some measure of agreement if matter handled separately. Dept will therefore proceed on assumption such approaches continental countries will be made either here or in respective capitals through normal diplomatic channels. [Gay.]

ACHESON

693.0031/7-549 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 5, 1949—7 p. m.

2320. *New York Times* July 2 carried story by Benjamin Welles dated July 1 London which summarizes purposes and progress US mission to London re control exports to China. *Baltimore Sun* July 3 carried similar story by Paul Ward datelined Washington July 2. Dept requests report any info re possible source London, any similar coverage Brit press, and reaction FonOff officials thereto if volunteered.

Fol excerpts from *New York Times* story :

"US Govt quietly seeking the support of its North Atlantic Pact associates and of the 'free' Asiatic powers for coordinated foreign trading policy vis-à-vis the Communist areas of China, was reliably learned here.

"Purpose of policy, it is emphasized, is not to pave way for early recognition of Chi Commie regime but, on contrary, to strengthen collective hand of non-Commie powers in trading with China and at same time to block future flow of strategic materials to Communist areas of Asia—including Soviet Union. . . .

"As chief 'salesman' for new program, US sent Edwin M. Martin, director of State Dept's Office of International Trade Policies, to Europe about 2 weeks ago.

"Accompanied by three experts from State and Commerce Depts, Mr. Martin conferred here with Brit officials and then left for the Continent to discuss both Chi and Japanese economic affairs with the experts of France, Belgium and Netherlands.

"It is understood that when Mr. Martin first proposed to Brit the plans to draw up list of strategic materials to be banned from export to China his views met with a 'cool' reception. The Brit raised several objections, namely that international trade was now more than ever Britain's life blood, that British traders had spent a hundred years in building up their position in Far East, that they had been severely

⁴⁹ Not printed.

hurt in the past 10 years and further restrictions at this time might send many of them to wall.

"The British were reported further to have pointed out that any attempt to 'police' international trade with China to prevent strategic materials falling into Communist hands would prove immensely difficult.

"US has not insisted on any hard and fast agreement thus far, it is said, but rather has asked the British and other Govts to turn over the matter in their minds and come up with some pertinent ideas.

"British have agreed to 'go along' with US but only if latter insists, and provided that the other trading countries cooperate and form a common front."

ACHESON

693.0031/7-749 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 7, 1949—4 p. m.
[Received July 7—2:49 p. m.]

2638. Deptel 2320 re *New York Times* story re purpose US mission to London. Embassy can supply following information.

1. Benjamin Welles called at Embassy afternoon July 1 requesting information re position Edwin Martin. He was given biography contained in Department *Register*. In ensuing conversation Welles disclosed he in possession of information outlined in summary of *Times* article contained in Deptel under reference. He refused to reveal source of information stating that he had followed lead given by Department statement of June 30 re Martin in London to talk with British re trade with China in view current conditions and had discussed British attitude toward Martin talks with various British Government agencies and foreign diplomatic missions.

2. Content of Martin conversations are known to several British Government agencies including Foreign Office, Treasury, Board of Trade and Colonial Office but which one gave information to Welles Embassy cannot ascertain. From tone of *Times* article as summarized in Deptel Embassy suspects Treasury or BoT.

3. Also on afternoon July 1 Westminster Press phoned Embassy re biography Martin. Connection this organization with matter not known to Embassy.

4. British press has not published anything on subject and has not even mentioned two US articles referred to in Deptel under reference.

5. Embassy has no information re source *Baltimore Sun* article.

6. Foreign Office has not mentioned leakage of information in question although Embassy officers in daily contact with Foreign Office.

DOUGLAS

693.0081/7-1249 : Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary of State*LONDON, July 12, 1949—3 p. m.
[Received July 12—11:33 a. m.]

2705. On July 1 Bliss⁵⁰ and Martin called on Morland at Foreign Office at latter's request. He reported inter-departmental meeting had recommended to Ministers substantial adoption of US proposals respect control trade with China, subject adoption similar controls by other principal countries involved. With respect petroleum products, disposed not wait but attempt to get agreements US, UK and Dutch Governments or companies as soon as UK decision reached. Not able forecast decision of Ministers. Possible decision will be made within 10 days.

DOUGLAS

693.419/7-2649 : Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary of State*LONDON, July 26, 1949—6 p. m.
[Received July 27—10:30 a. m.]

2956. Deptel 1382, April 22 and later telegrams re application R-procedure to exports to Communist China.

1. Foreign Office states that, although still subject to confirmation by other interested departments, final form of reply to US proposals will be broadly on following lines (quoted from Foreign Office memo) :

"a. We share anxiety of US Government to see flow of strategic goods and materials to Communist China and North Korea, and thence to USSR, kept under control, but we do not feel justified in extending control at present exercised in UK over export of list 1(A) items to cover transshipment in Hong Kong and Singapore until definite assurances have been obtained from Belgians, and from French and Dutch in respect of both their metropolitan and their Far East colonial territories, that similar controls will be instituted by them. We assume that US Government would also be able to assure us that SCAP exercising similar controls in respect of Japan. When these assurances have been obtained we are prepared to cooperate by extending control at present exercised over export of list 1(A) items from UK to cover transshipment in Hong Kong or Singapore.

"b. We are not at this stage prepared to institute control system over selected list of 1(B) items, as suggested by Americans. We are not convinced that such control, which would involve us in considerable political and administrative difficulties, would be effective. We shall,

⁵⁰ Don C. Bliss, Counselor of Embassy for Economic Affairs in the United Kingdom.

however, watch flow of these items to Chinese and we are prepared to exchange information with Americans as is done in case of Eastern Europe. We are also prepared to enlist cooperation of Hong Kong and Singapore Governments in this regard. In any case, position will, of course, be reexamined from time to time.

"c. In our view it is of particular importance to ensure that China does not import oil in excess of quantities needed for her own civilian requirements. It is considered that our position could be adequately safeguarded if UK, US and Netherlands oil companies were to decline to enter into any large-scale or long-term contracts for supply of oil to China, and confined themselves to supplying normal civilian requirements on short-term basis. As temporary measure, pending decision on future policy, British oil companies have already been asked to do this. If US Government and Netherlands Government would agree to take similar action, it is considered that oil companies of three powers would be in position to inform their Governments if at any time it appeared that Chinese Communists were acquiring oil supplies in excess of normal civilian requirements. Any further necessary measures could then be considered. It would also be necessary to watch oil traffic into Soviet Far East for any signs of developing re-export traffic into Communist China. If US Government agree with these views we hope they will agree to join us in similar approach to Netherlands Government."

DOUGLAS

693.419/7-2649 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 29, 1949—8 p. m.

2678. Dept has read with disappointment tentative Brit response to US proposals re joint control of exports to China as reported in Embtel 2956 of July 26. Please reopen matter with FonOff at highest level along following lines, and in context broad question US-UK cooperation in Far East:

Dept seriously concerned that proposed Brit response represents far less than absolute minimum requirements joint protective measures in present Chi situation. Failure demonstrate effective western control selected exports of key importance to China's economy would represent abandonment most important single instrument available for defense vital western interests in China and Far East generally. Implications of completely passive role western nations in economic relations China extend not only to all strategic aspects of Chi problem but cast serious doubt as to possibility effective joint approach in combating spread of communism throughout Asia.

Control of 1A exports to China is, of course, necessary to prevent possibly occasional trans-shipments via China to Soviet orbit. Dept appreciates importance obtain prior assurances Belgian, French and

Dutch Govts for similar action re their metropolitan and Far East colonial territories. SCAP is now controlling strategic exports to China in accordance proposed joint US-UK policy, and US Govt prepared obtain Philippine cooperation. However, since 1A list contains little, if anything, of importance to China, joint action in this regard provides no leverage in dealing with Chi Commies. Joint control of petroleum shipments to China is regarded as important aspect of general control pattern, but by itself has no symbolic value since it would be effected largely through informal arrangements with private companies rather than by export licensing, and since China's petroleum purchases over foreseeable future are likely to be far below normal civilian requirements.

Dept recognizes difficulties of inclusion 1B items in present pattern UK 1A licensing system. Unable understand, however, why control selected 1B exports to China could not be effected by creation new list under which licenses would be required, in effect, only for exports to China and adjacent areas, thus limiting procedural deterrents on Britain's export trade to marginal scope. Brit point, made in recent London discussions, that this impossible because it would represent open discrimination not understood by Dept. Present pattern UK export licensing involves open discrimination as between broad areas of world, and US export controls represent even greater degree discrimination. Present world situation obviously justifies discrimination on security grounds, and this position has been successfully maintained in GATT⁵¹ conferences. That 1B exports to China do not represent as immediate and direct threat in military terms as do 1A exports to Eastern Europe should not be allowed to obscure the fact that mutual security interests of western world must be considered, certainly so far as Asia is concerned, at least as much in terms of political and economic strategy as in terms of direct military factors. Difficult for us to understand what "political and administrative difficulties" outweigh importance of solidarity in adoption strategy for maximum protection vital long-range interests.

ACHESON

693.419/8-449 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, August 4, 1949—7 p. m.
[Received August 5—4:57 a. m.]

3061. The Minister⁵² today presented *aide-mémoire* to Hector McNeil,⁵³ FonOff, along lines indicated in Deptel 2678, July 29. Fur-

⁵¹ General Agreement on Tariffs and Trade.

⁵² Julius C. Holmes, Counselor of Embassy.

⁵³ British Minister of State.

ther discussions will be held between Embassy representative and Berthoud, assistant under secretary, FonOff.

McNeil informed Minister British response US proposals had been reviewed and approved by cabinet sub-committee so that although British would be agreeable review situation any alteration would have to be considered at ministerial level. He indicated UK had decided stay in Hong Kong and that therefore it would have to be free to act if necessary in such way as not invite attack by Chinese Communists and again stressed that extension control 1A items to cover transshipment Hong Kong and Singapore would depend on similar action being taken by Belgians, French and Dutch. In reply query he was informed that US had not approached these countries re initiating such action. Does Department plan approach these countries in near future?

Results further discussions with British will be reported as soon as they are held.

DOUGLAS

693.419/8-549 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, August 5, 1949—9 p. m.

[Received August 6—2:47 a. m.]

3092. ReEmbtel 3061, August 4. Dickover⁵⁴ and Bartlett⁵⁵ reviewed *aide-mémoire* re export controls to China with Berthoud of Foreign Office. Berthoud stated decision of course must be taken at ministerial level, but mentioned that (1) UK anxious not jeopardize its substantial investments CochinChina [*Communist China?*]; (2) Before any specific additions to present UK 1-A list were made, UK would have to consult French among others; (3) If present UK position were changed, US and UK might preferably consult French and others on both 1-A and 1-B actions rather than attempt handle problem in two steps. And, (4) Foreign Office apprehensive re defending proposed new controls over selected 1-B items because they would have to be justified on basis considerably broader concept of national security requirements than that on which present 1-B controls had been justified.

Berthoud seemed clearly worried at broad political implications involved in attempting to devise scheme whereby western powers might use economic strength influence Communist Chinese. At conclusion discussion, he referred to use USSR and satellites were making of 1-A controls in order to belabor UK, and wondered whether results of 1-A

⁵⁴ Erle R. Dickover, Counselor of Embassy in the United Kingdom.

⁵⁵ Frederic P. Bartlett, First Secretary of Embassy in the United Kingdom.

controls outweighed ill effects of propaganda weapon which their existence gave to USSR.

DOUGLAS

693.419/8-549 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, August 11, 1949—7 p. m.

2863. Brit Emb presented *Aide-Mémoire* Aug 1⁵⁶ representing response FonOff US proposals re joint control strategic exports to China. Text *Aide-Mémoire* identical Embtel 2956, July 26, with exception addition one sentence at end Para A, as fols: "They (HMG) would also like to see Korean and Philippine Govts agreeing to institute similar controls."

Brit Min states Dening probably will accompany Bevin and Cripps⁵⁷ to Washington early Sep with view discussion Far Eastern policy. Dept inclined continue pressure through Emb London along lines Deptel 2678, July 29, followed by *démarche* Bevin and Dening here. Dept desires continue frontal attack on Brit position and believes that to join Brit at this time in combined approach to continental govts on limited basis proposed wld weaken our bargaining position.

If queried further re US approach continental govts (Embtel 3061, Aug 4), suggest you state Dept in agreement Berthoud's point 3 Embtel 3092, Aug 5.

Dept acknowledging⁵⁸ *Aide-Mémoire*, stating merely that consideration is being given Brit response and that discussions meanwhile are being continued London.

Request Embs comments.

ACHESON

693.419/8-2449

*Memorandum by Mr. Livingston T. Merchant of the Office of Far Eastern Affairs to the Chief of the Division of Chinese Affairs
(Sprouse)*

[WASHINGTON,] August 24, 1949.

Mr. Rusk⁵⁹ indicated to me this afternoon that the President is moving rapidly toward an attitude and policy with respect to Communist China which will result in an abandonment of the thesis

⁵⁶ Not printed.

⁵⁷ Sir Stafford Cripps, British Chancellor of the Exchequer.

⁵⁸ August 12, not printed.

⁵⁹ Dean Rusk, Deputy Under Secretary of State.

contained in NSC 41.⁶⁰ It apparently is still his desire to prevent the American tankers from delivering oil to Manchuria.⁶¹ We are also immediately instructed to explore in more concrete terms the possibility of aid to Li and Pai.⁶² In this connection I think you should attempt urgently to reach Kavanaugh of CalTex and ask him to drag his feet on the fuel oil contract for Shanghai.

693.419/9-949: Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, September 9, 1949—1 p. m.
[Received September 9—8:55 a. m.]

3632. Embassy has received FonOff note re Embassy's *aide-mémoire* August 3 (Embtel 3061, August 4). While agreeing US objectives insuring western trade does not increase military strength Chinese Communists and influence orientation Chinese Communist regime, UK does not agree that "means proposed by USG are likely to lead to the desired result". Note emphasized concern UKG pointing out specific sensitivity re Hong Kong and Southeast Asia, supports UK desire control export petroleum products on grounds reserve stocks petroleum essential for Chinese Communist expansion beyond Chinese borders. Occasion taken in note support their continued maintenance commercial and financial relationships on grounds this will give best opportunity exercising influence on Chinese Communist regime. Note has Minister's approval.

Text being airtailed.⁶³ Request instructions if further approach by Embassy desired.

HOLMES

693.119/9-949

Memorandum of Conversation, by Mr. Robert N. Magill of the Division of Chinese Affairs

[WASHINGTON,] September 9, 1949.

Participants: Mr. Dening, British Foreign Office, Assistant Under-Secretary for Foreign Affairs in Charge of Far Eastern Matters

⁶⁰ February 28, p. 826.

⁶¹ For correspondence on this subject, see pp. 1002 ff.

⁶² Marshal Li Tsung-jen was Acting President of the Republic of China, and General Pai Chung-hsi was his principal military supporter. For correspondence on military aid, see pp. 472 ff.

⁶³ Despatch No. 1441, September 9, not printed.

Mr. Meade, Counselor, British Embassy
Mr. Ford, First Secretary, British Embassy
Mr. Butterworth, FE; Mr. Merchant, FE;
Mr. Freeman, CA; Mr. Magill, CA; Mr. Wright, CP.

In the course of a conversation on China with Mr. Dening and members of the British Embassy, the subject of trade with Communist China was introduced. With reference to the U.S. proposals for joint U.S.-U.K. control over strategic exports to China, Mr. Dening stated that the U.K. Ministers had reconsidered their position in accordance with the request contained in the U.S. Embassy's *Aide-Mémoire* of August 3; that they had reached a decision along the lines of their previous position; that a reply was being formulated which they had hoped could be presented by Mr. Bevin to the Secretary during the course of the present conversations. Mr. Dening read through hurriedly what appeared to be the text of this reply, the burden of which was that, while there was no difference between U.S. and British aims with respect to China, the U.K. doubted that a joint demonstration of ability to control strategic exports to China would have the desired effect. Mr. Dening indicated that they did not understand the nature of the threat which the United States apparently wished to guard against by the imposition of controls over strategic industrial materials. In commenting on the British position, he emphasized that the U.K. had already taken steps, in conjunction with the Hong Kong and Singapore Governments, to prohibit the movement of military supplies and equipment to China.

Mr. Butterworth reviewed the considerations that govern our approach to the British on the subject of export controls with respect to China. He stated that we consider controls on exports to China essential: (1) to close the back door (China) on the movement of goods to eastern Europe that are otherwise denied to that area, (2) to guard against acquisition by the Chinese Communists of goods of direct military utility, and (3) to disabuse the Chinese Communists of their preconception that western nations are necessarily, by virtue of their capitalist and imperialist societies, bound to accept a passive role in their economic relations with Communist China. Mr. Butterworth pointed out that to achieve the third objective we should, together with the British and other important western governments, control selected goods of importance to the Chinese economy, not with the idea necessarily of arbitrarily preventing the flow of such goods, but as a symbol of our ability to take punitive measures against the Chinese Communists if such action should be made necessary in the future. He added, however, that punitive action was not in the forefront of our thinking.

Mr. Butterworth indicated assent to Mr. Dening's assumption that we were in agreement with the British position with respect to the importance of obtaining multilateral cooperation in the control of 1A exports to China. He added, however that he was not sure, judging by the language of the U.K. note of August 1, that the British understood our desire that they join us in any approach to the continental governments on this matter; that we thought this had been made clear in the course of our discussions with the British Embassy since last February. Mr. Dening and his colleagues responded that they were not aware that the Department had made explicit its desire for a joint or parallel approach, and reference was made to our August 3 memorandum in which no mention was made of such an approach. Mr. Butterworth commented that the memorandum did not deal with the matter of a joint approach to the continental governments at that time since we were hopeful that the British would shortly also agree in principle to the control of 1B exports which could then be included in the scope of a joint approach. In response to Mr. Butterworth's query as to why the British had selected petroleum as the only export of importance to the Chinese Communists that they were willing to control, Mr. Dening stated that the U.K. regards petroleum of particular importance since it could contribute significantly to the military capabilities of the Chinese Communists or the Nationalists. He indicated that the British, for example, do not relish the idea of western petroleum supplies making it possible for the Nationalist Air Force to damage British shipping and other property in the Shanghai area. Mr. Dening added, however, that he envisaged the possibility of permitting aviation gasoline to move to China in quantities sufficient to meet normal needs for international air services if they are reestablished.

Mr. Merchant took occasion of the mention of aviation to review the U.S. position in this regard. He stated that U.S. Government was interested in the resumption of regular international air service to China when conditions made it possible for operations to be carried on safely. He pointed out that we had initially been opposed to establishment of a shuttle service between Shanghai and Hong Kong on the ground that, since this would provide the Communists with an outlet to existing international aviation routes, it might prejudice the reestablishment of regular international service in China; that subsequently, however, we had been willing to see U.S. airlines participate in a temporary shuttle for evacuation purposes if assurances of safe conduct could be obtained. He observed that it appeared that Jardine⁶⁴ intended to operate a night shuttle without assurances of safe conduct; that this intention appeared to bear some relation to the difference in

⁶⁴ Jardine, Matheson & Co., British shipping firm

U.S. and U.K. views on the question of arranging for shipping to go into Shanghai; that we were interested in facilitating shipping solely for evacuation purposes, whereas the British were interested in using shipping to carry in supplies that might enable foreign business personnel to remain in Shanghai. He expressed the belief that we were not likely to be able to arrange an air shuttle service that would be acceptable to both the Nationalists and the Chinese Communists.

In response to Mr. Merchant's inquiry, Mr. Dening stated that he believed that Jardine intended to go ahead with the shuttle service without the Chinese Government's assurances, although the Hong Kong Government might not permit night landings or take-offs at Hong Kong. He observed that the only significant consequence of a shuttle service would be to boost the morale of the foreign community in Shanghai. In response to Mr. Merchant's inquiry, Mr. Dening assured him that the U.K. was still in agreement with the U.S. on the undesirability of participation by western airlines in the creation of an internal Chinese aviation service.

Mr. Dening went on to discuss the relative merits of evacuation of British economic interests in China versus an attempt to maintain a foot in the door. He stated that the British Government entertained no doubts at all that the Chinese Communists were 100 percent Marxists and that they fully intended to apply Communist doctrine in China. He observed, however, that they might have considerable difficulty in doing so as a result of China's chronic economic handicaps and the basic individualism and commercial opportunism of the Chinese people. He continued that, if and when these difficulties begin to have effect, the Chinese might then realize their need for beneficial economic relations with the West and that British and other western interests should be on hand in China at that time to take advantage of such favorable factors as may emerge. Mr. Dening emphasized that the British believed that, so long as there exists a faint hope for such developments, British interests should remain; that if they should now withdraw there would be no possibility of their reestablishment within our life-time. He added that there had recently been some signs that the difficult labor situation in Shanghai was beginning to ease.

Mr. Butterworth commented that the term "evacuation" had been used rather loosely, and took occasion to review the Department's attitude towards the position of American business men in Shanghai. He then asked Mr. Dening if the U.K. had given any thought to conveying British shipping into Shanghai. Mr. Dening responded that consideration had been given to the question but that no decision had been made; that the British hoped rather that the Chinese Government blockade would let up. He added that the French are also planning to

send a ship into Shanghai to permit evacuation, but that they share the British view regarding the desirability of keeping a foot in the door.

Mr. Merchant returned to the question of export controls and stated that no U.S. action had been taken to apply new controls to China, that such action could only be taken after elaborate inter-Departmental consideration, but that we hoped to have a decision to communicate to the British before Mr. Bevin leaves.

693.419/9-1249

*The British Embassy to the Department of State*⁶⁵

AIDE-MÉMOIRE

CONTROL OF TRADE WITH CHINA

Upon receipt of the American Embassy's *Aide-mémoire* of 3rd August,^{65a} the United States proposals regarding the control of trade with China were once again made the subject of careful study by the interested Departments of His Majesty's Government.

2. The objectives of the United States proposals appear to be—

(a) to ensure that Western trade with China does not have as a direct consequence an increase in the military strength of the Chinese Communist administration; and

(b) in the words of the American Embassy's *Aide-mémoire*, "to influence the orientation of that (the Chinese Communist) regime, and therefore to combat the spread of Communism throughout Asia." It appears to be the United States view that this end might be achieved by demonstrating to the Chinese Communists the economic bargaining strength of the West through the concerted control of selected exports of key importance to the Chinese economy.

3. It is perhaps unnecessary to emphasise that there is no difference between His Majesty's Government and the United States Government as to the importance of these aims. Indeed, His Majesty's Government, because of their position in Hong Kong and South-East Asia, have immediate and compelling reasons for being anxious to secure the achievement of both objectives.

4. His Majesty's Government consider that, as far as the first of these two objectives is concerned, they have already taken steps which safeguard the position. They have, for example, not only effectively prohibited the export from the United Kingdom of weapons of war of any kind destined for the Chinese National Government, but have refused to permit the trans-shipment in Hong Kong of military equip-

⁶⁵ Notation by Mr. Magill: "Discussed with British. File."

^{65a} Not printed, but see telegram No. 3061, August 4, p. 868.

ment so destined irrespective of its country of origin. They have done this because experience has shown that such shipments usually eventually result in an accretion to the military strength of the Chinese Communists. In any case, the fact that the American Embassy's *Aide-mémoire* under reference lays almost exclusive stress on the importance of controls, not from the narrower and more direct security point of view, but in the light of broader political considerations, suggests that it is to this latter aspect of the question that the United States Government now wish to draw especial attention.

5. It has already been stated that His Majesty's Government fully share the United States Government's anxiety to take such steps as may be effective and practicable to influence the Communist regime in China in the direction of more moderate and co-operative courses. Indeed, His Majesty's Government noted with gratification that the United States *Aide-mémoire* implies the practicability of the exertion of Western influence on the Chinese Communists, since it is because they share this view that His Majesty's Government do not favour a general policy of evacuation but on the contrary believe it important that the maximum Western influence should continue to be exerted in China. The basic difference between the two Governments on this issue appears to be that His Majesty's Government see no grounds for believing that the imposition of export controls of the kind proposed is likely to produce this desirable result.

6. It is understood that the United States proposals do not contemplate any immediate interference in the export to China of the list 1B items which have been suggested for control and that the powers which it would be necessary to assume would, in fact, be held in reserve; the argument being that the mere assumption of these powers would provide an effective demonstration of Western bargaining strength and might also have the desirable political consequences mentioned above.

7. His Majesty's Government find it difficult to see the force of this argument. The Chinese Communists are presumably aware that a sovereign State has the power to control its own exports. The assumption of controls for this purpose would be regarded as a threat to impose economic sanctions and it is hard to see why such a step should be any more effective than an announcement designed to remind the Chinese Communists of the economic bargaining position of the West.

8. In any case, experience has shown that Communist Governments regard commercial relations as being entirely dissociated from political relations: they have consistently shown themselves to be unwilling to modify their political principles for the sake of commercial advantages, but they have at the same time demonstrated their willing-

ness to trade freely, in so far as it is advantageous to them, with capitalist countries with whom they are in acute political divergence.

9. The American Embassy's *Aide-mémoire* refers to the subject of petroleum products in the following terms:—

“The Foreign Office has already indicated its desire to control the export of petroleum products. The same reasoning would appear to require control of the other categories studied by the sub-committee”.

There is, however, an important difference between the United Kingdom objective in regard to petroleum products and the United States objective in regard to the other categories proposed for control. The United States proposal is that this latter group of items should be controlled, not because of its immediate security importance but because of the general political bargaining strength which it is asserted that such controls would bestow. As has already been stated, His Majesty's Government are skeptical of the efficacy of export controls aimed at a modification of the political alignment of the Chinese Communist regime, and are not disposed to institute controls for such a purpose. In the case of petroleum products, however, there is an obvious security interest. It is clearly of direct security importance to prevent the Chinese Communists from acquiring substantial reserves of petroleum products. Although the military operations of the Chinese Communists within China have not involved any substantial consumption of petroleum products, plans must be made on the assumption that sooner or later they will endeavour to expand beyond the frontiers of China. For such a purpose substantial quantities of petroleum products might well be indispensable. His Majesty's Government have to give particular consideration to the case of Hong Kong. It is considered that any overt attack on Hong Kong from the Chinese mainland could be successfully resisted unless the aggressor were able to acquire, at any rate temporarily, command of the air and sea. It was because of considerations of this order that the communication recently made by the Foreign Office to the American Embassy laid particular stress on the importance of petroleum products.

10. His Majesty's Government have indicated to the United States Government in another context that they see important advantages in the continued maintenance in China for as long as possible of Western commercial and financial interests. It is precisely because they are anxious to secure the second of the two objectives referred to in paragraph 2 above that they do not wish to show open hostility to the Chinese Communists by dissuading British commercial interests from entering into normal commercial relations with them.

This does not mean that their policy in this regard can be considered as purely passive as is suggested in the United States *Aide-mémoire*. On the contrary, they consider it to be of importance to maintain their general position in China for as long as possible in order to permit the carrying out of a flexible policy of exerting influence and pressure whenever opportunity offers. They do not, however, consider that the means proposed by the United States Government are likely to lead to the desired result.

WASHINGTON, 12 September, 1949.

Executive Secretariat Files : NSC 41 Folder

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] September 16, 1949.

This morning at the Cabinet meeting the President had in his hand a copy of NSC 41 which was the paper approved last February on trade with China. The President said he thought it was out of date and should be revised. I assured him that the matter would be looked into at once.

D[EAN] A[CHESON]

693.419/10-449

The Acting Secretary of State to the Secretary of Commerce (Sawyer)

WASHINGTON, October 4, 1949.

MY DEAR MR. SECRETARY: As a matter of direct interest to your Department, I wish to summarize for your information the results of our recent talks with the British Foreign Minister and his advisers on the question of parallel action by the United States and British Governments to control exports of strategic commodities to China and adjacent areas in the Far East.

You will recall that conversations on this subject have been proceeding with the British since February of this year, and that in June a small technical mission composed of representatives of the Department of State and your Department went to London, at the invitation of the British Government, to discuss the matter on the technical level with British officials. Our position in these conversations was worked out jointly with your Department by representatives of the Department of State, the National Military Establishment, and the Economic Cooperation Administration.

In accordance with this position, we urged the British to cooperate with us in imposing effective controls on exports to China, both from

the United Kingdom and from their dependencies in the Far East, of commodities included in our own 1-A and 1-B lists of strategic commodities, for the following purposes: (a) to deny goods of direct military utility to the Chinese Communists, (b) to prevent transshipment via China to the USSR, eastern Europe and North Korea of goods which are being denied to those areas by the United States and western European governments, and (c) to demonstrate western solidarity and ability to control, and if necessary to restrict, strategic goods of key importance to the Chinese economy. We stressed that we did not intend at that stage to restrict exports to China of 1-B goods that could be justified in terms of normal civilian requirements. In accordance with this view we asked the British to control and exchange information with us on shipments to China of a highly selected list of 1-B items of key importance to the Chinese economy, comprising altogether some fifty items.

After consideration of these proposals, the British Government informed us that it was unable to accept them, but made a counter-offer as follows: (a) they would undertake to impose controls on exports of 1-A items to China, contingent upon the cooperation of other countries which are alternative suppliers, and would also impose similar controls on exports to China from Hong Kong and Singapore; (b) they would agree to "watch the flow" of 1-B items to China and exchange information with us on the trade in these items, enlisting the assistance of the Hong Kong and Singapore Governments in this; (c) they proposed that the United States and British Governments, in cooperation with the Netherlands Government, exercise an informal control over the supply of petroleum products by arrangement with the major oil companies of the three countries.

We believed one more effort should be made to obtain British agreement to our original proposals and therefore asked them to reconsider the question. The subject was held open for further discussions at the recent talks in Washington, which were then being planned, and when Mr. Bevin came to Washington we again raised the matter.

Mr. Bevin and his advisers informed us, however, that they had reconsidered carefully their position but had decided that they would be unable to go further than their offer of last August. We therefore deemed it advisable to accept this offer, but expressed the hope that they would be able in the future to reconsider their position with reference to export controls on 1-B items. It was agreed that the British Government will approach the members of the British Commonwealth, seeking parallel controls by them, and that the United States will approach the Republic of the Philippines. The United States and the British Governments will make parallel approaches to the Governments of western Europe, seeking similar controls by

them. We assured the British that the Supreme Commander for the Allied Powers was now controlling Japanese strategic exports to China, and that the United States would undertake to ensure adequate control of transshipments at South Korea. It was understood that the agreement to exchange information with reference to 1-B items implies a commitment to consult each other regarding corrective measures if such shipments, in the judgment of either Government, are proceeding at an excessive level or threaten to become injurious to our common interests.

This Department will take steps to make the necessary approaches to the governments of third countries whose cooperation is required. It is understood that a recommendation is being submitted to your Department through the export control committee system, for the extension of the R-procedure to China and adjacent areas as soon as possible, and the Department of State will support this recommendation and present its views regarding the policies which should be pursued in licensing exports for shipment to those areas.

Sincerely yours,

JAMES E. WEBB

690.419/10-1149 : Circular airgram

*The Secretary of State to Certain Diplomatic and Consular Officers*⁶⁶

WASHINGTON, October 11, 1949—12:40 p. m.

Proposed Control Over Exports to China and Adjacent Areas

1. After extended negotiations with the British regarding control over exports to China, the Secretary and Mr. Bevin agreed in recent discussions here to proceed along lines which British had previously indicated acceptable to them, as follows:

a. UK will exercise existing licensing controls over 1A list exports (see paragraph 14) to China, Macao and Korea, and Hong Kong and Singapore Governments institute similar controls to prevent Chinese Communist and north Korea acquisition goods of direct military utility and USSR and eastern European acquisition such goods via transshipment. UK action this regard, however, contingent French, Belgian and Dutch imposition similar controls on exports from their metropolitan and Far Eastern territories. Presumption would be for denial 1A exports to Chinese Communists and north Korea, with possible exception, after consultation cooperating governments, on case by case basis (e.g. aviation gas for regular international air carrier services). Understood that 1A controls include munitions, export of which British state now prohibited from UK and Hong Kong to China.

⁶⁶ Sent to Batavia, Brussels, Canberra, Frankfurt, The Hague, Hong Kong (also for Embassy Office Canton), Karachi, London, Manila, Moscow, New Delhi, Ottawa, Paris, Saigon, Seoul, Singapore, Tokyo, and Wellington.

b. US and UK will seek collaboration of Netherlands Government in informal arrangements with major oil companies under which petroleum sales Chinese Communist areas and north Korea would not exceed normal civilian requirements and avoid long term contracts. (Such arrangements would cover sales from Middle East and NEI, US exports to be similarly controlled by license).

c. US, UK and other cooperating governments would watch flow 1B list goods (see paragraph 14) to China and north Korea and exchange information thereon with view corrective measures if volume excessive or injurious mutual interests (British not prepared at this time place any 1B exports to China under licensing control).

2. US and UK agreed make parallel approach obtain cooperation French, Dutch and Belgian Governments. Department undertook approach Philippine Government and obtain control transshipments south Korea. British proposed approach commonwealth governments (for your information we have not regarded Commonwealth cooperation other than Canada as necessary for time being). We assured British that SCAP now controls strategic Japanese exports to China. Agreed that Portuguese cooperation establish controls to cover Macao transshipments unnecessary for present in view shallow water Macao harbor.

3. British were informed that, while imposition US controls subject further interdepartmental consideration, such action may be necessary near future. Department indicated that, while US export controls China probably would have to be, for administrative reasons, more comprehensive than proposed for adoption by European governments, we did not intend at present apply other than 1A controls with severity. (US action probably will entail extension R procedure to China and adjacent areas. This will enable control over US petroleum exports in accordance paragraph (1-b) above, screening 1B and lower categories to guard against transshipment via China to USSR, eastern Europe and north Korea such goods as otherwise denied those destinations, and more adequate observation movement 1B goods for exchange information cooperating governments. For your information only, anticipated north Korea would be treated same manner eastern European satellites and 1B exports Manchuria licensed conservatively in view transshipment possibilities due Soviet control railroads that area.)

4. Timing of parallel approach not yet agreed with British. Meanwhile, however, Embassies Paris, Brussels and The Hague should prepare to open conversations with respective governments, subject subsequent instruction, with view obtain their early concurrence joint action along lines above agreed with British. While OSR⁶⁷ and ECA

⁶⁷ Office of Special Representative (in Europe, Harriman).

not expected share responsibility China negotiations, Embassies should obtain their technical assistance as required and ensure full coordination China and east-west European negotiations. You should also keep your British colleague informed and concert your actions with him.

5. Embassy conversations should take account following points: Extension 1A controls China axiomatic to effective application east-west European controls already agreed upon or under negotiation. Present low level China trade does not minimize need early action since highly strategic goods could nevertheless be involved, and since more feasible impose controls before trade revives. 1A list goods generally not suited to Chinese civilian economy and licensing controls therefore directed primarily against USSR and European satellites and against acquisition munitions by Chinese Communists. Although not made explicit in discussions with British, it should be understood that application 1A controls to all China, including Taiwan, and to Korea as whole does not preclude licensing 1A exports to Chinese Nationalist areas and south Korea under conditions that serve national interests cooperating governments. Agreement to watch closely and exchange information on 1B exports represents minimum precaution in which major western governments should collaborate in their mutual strategic interest with reference to highly uncertain situation resulting Communist control China. Proposal to Dutch Government re control petroleum should be viewed in this sense, and as particularly important and desirable because petroleum most critical commodity to Chinese and, by virtue character industry, most susceptible control without formal action.

6. Exchange information re entire 1B list exports eastern Europe has not been accepted by western European governments other than British and Italian. Embassy proposals for exchange information re 1B exports to China should therefore be couched in terms surveillance movement selected group items of key importance Chinese economy and 1B list as such not emphasized. Department has in mind about 50 1B items agreed informally with British as of major importance, and will transmit soonest.

7. Initial negotiations should attempt reach agreement in principle with technical details re procedure to be worked out subsequently (e.g. arrangements for exchange information re 1B exports). Any attempt by continental governments to make their cooperation contingent upon similar action by governments other than those agreed with British should be resisted strongly on grounds latter governments control primary sources and entrepôt centers China trade and water-tight control system obviously impossible. (See paragraph 12) If

significant diversion trade in 1A goods develops in other areas, necessary remedial action could be taken. Embassies should ascertain extent to which licenses now required for 1A exports to China and whether imposition proposed controls by metropolitan and Far Eastern colonial territories requires legislative or administrative action. Embassy The Hague's comments, after consultation Cochran,⁶⁸ requested re short and long term aspects proposed action with reference Indonesia.

8. Embassy London should consult Foreign Office re timing and procedure parallel approach continental governments and ensure understanding pertinent substance this telegram. Also should agree on scope 1A controls for China to be requested of continental governments. Department suggests US and UK both request adoption full UK 1A list with understanding this subject expansion in accordance US desire control full US 1A list, but that UK will promptly impose at least such 1A controls as continental governments can now extend China on interim basis.

9. Embassies Paris, Brussels and The Hague should not approach respective governments on any of above pending further instructions.

10. Department intends initial approach to Philippine Government through Embassy Manila but no action required pending further instruction.

11. Undecided whether R procedure will apply south Korea or whether reliance to be placed on cooperation Korean Government with ECA mission. No action expected Embassy Seoul at present.

12. Western Germany not mentioned thus far in discussions with British, but Department would of course wish The High Commission to apply same policies and procedures to China and adjacent areas as agreed with British and will take up with Frankfort in separate message.

13. Department would appreciate any comments missions and posts by telegram.

14. For information missions and posts, 1A and 1B lists refer first two commodity classifications under the US Government's R procedure of export licensing now operated by Department of Commerce in consultation other agencies concerned. R procedure requires licenses for exports to designated countries (presently all Europe, including UK) of large number items classified confidentially in order strategic importance. Class 1A comprises Department's munitions list and other highly specialized equipment and materials of high military significance. US now denies 1A exports to USSR and European satellites, as do UK and certain continental governments for shorter but parallel lists of varying scope. Class 1B covers a wide range of key industrial,

⁶⁸ H. Merle Cochran, U.S. Member of the United Nations Security Council's Good Offices Committee for Indonesia.

transportation and communications equipment and supplies, export of which to USSR and European satellites the US now licenses only in small quantities. UK and continental governments require license only for such 1B exports as are in short supply. U.S. also restricts exports to USSR and European satellites of certain goods in Class 2, but remainder exports Class 2 and lower categories generally licensed freely.

Existing UK control system requires license for 1A exports to all countries except US, western Europe, and British dominions and territories. However, 1A exports to China not now denied UK licenses unless on munitions list. UK prefers to establish 1A controls at Hong Kong and Singapore rather than on UK exports to those destinations.

ACHESON

690.419/10-1449: Circular telegram

The Secretary of State to Certain Diplomatic and Consular Officers in China^{68a}

WASHINGTON, October 14, 1949—5 a. m.

SecState and Bevin have agreed on course to be pursued in limiting far as feasible export of goods to Chi and Korea which could be used for direct mil purposes by Chi and Korean Communists or by USSR and Eur satellites, to which such goods could be transshipped. It is contemplated both US and UK would prohibit exports to Chi and adjacent areas items classified 1-A (materials high mil significance), with possibility exceptions may be agreed to in specific cases. Imposition such controls by UK will, however, be conditional upon imposition similar controls by Fr, Belg, and Neth. Similar action on our part will follow upon working out of technical details. It agreed US and UK will make parallel approaches to Fr, Belg, and Neth to obtain their cooperation, that UK will approach Commonwealth countries and that we shall approach Phil to same end. We have assured Brit that SCAP now controls strategic exports from Jap to Chi. US and UK will also seek collaboration of Neth in arranging with major oil companies limit sales to Commie Chi and north Korea to normal civilian requirements, and avoid long term contracts. Finally, it anticipated that US, UK, and other cooperating countries will watch flow to these areas goods listed 1-B (key industrial, transportation, and communications equipment and supplies) and exchange info with view taking corrective measures if volume appears excessive or injurious their common interests. Heads our missions in countries concerned these arrangements, and those in FE possessions these countries, have

^{68a} Sent to Nanking, Peiping, Shanghai, and Tientsin.

been informed in detail of course action agreed on but have been instructed delay approaching governments to which they accredited until further agreement reached with Brit on timing.

ACHESON

690.969/10-2049 : Telegram

The Secretary of State to the Ambassador in the Philippines (Cowen)

WASHINGTON, October 20, 1949—6 p. m.

1267. Urdes 829 Oct 5.⁶⁹ Dept Circ Agam Oct 11 sent you outlines plan to seek Phil coop in implementation export control system intended prevent Chi Commies obtaining strategic goods for direct mil purposes or transshipment to USSR, north Korea, east Europe satellites via China goods denied those areas under present US export controls. Ref agam clarifies nature plan; you were instructed in it await detailed instrs before approaching Phil Govt.

Re desp raises question power Phil Govt enforce such controls without seeking legislative auth[ority]. In your opinion, cld Govt devise effective system controls without additional legis, in light Supreme Court decision? If not, is it advisable request Govt coop which cld only be forthcoming after legislative auth obtained? If legis necessary, how long a period must be allowed for its passage and promulgation implementing regs. Dept desires your views these questions and does not wish you consult Phil auths.

For urinfo, export controls envisaged wld not be likely affect seriously Phil exports nor affect possibility obtaining imports for Phil requirements. Sole object to prevent bldg up of transit trade in strategic goods from US and elsewhere destined ultimately for areas mentioned above. Effective controls expected to be obtained alternative transit centers Far East, including Hong Kong. Only practicable alternative to asking Phil Govt for coop is to subject US exports to Phil to same control procedures envisaged for other Far Eastern areas. What in your opinion wld be possible repercussions this?

ACHESON

690.119/10-2049 : Telegram

The Secretary of State to the Ambassador in Korea (Muccio)

WASHINGTON, October 20, 1949—6 p. m.

886. For Emb and ECA. ReDeptel 473 Jun 17 and urtel 749 Jun 20, export controls for China and adjacent areas. You will note from

⁶⁹ Not printed.

Dept Circ Agam Oct 11 US has reached agreement UK this subject and proposes institute necessary controls here early date. Dept undertook assure effective control possible transshipments South Korea.

Your position opposing subjection US exports South Korea to R procedure carefully considered here but Dept unconvinced alternative suggested either desirable or effective. Dept concedes ECA control ECA financed exports and accepts your view ECA can obtain adequate cooperation re non-ECA goods which actually arrive South Korea, but points out danger of transit trade developing from use of funds outside either ECA or South Korean control, and possibility use of South Korea as "cloaking" destination for goods never intended to arrive there. Fact South Korea not hitherto important transshipment point of no significance in view geographic proximity Commie areas and effective controls to be imposed alternative entrepôt centers. Reliance South Korean coop wld also require disclosure strategic lists to that Govt and might impose undue burden on its customs and preventive services. This connection Dept requests you review position in light ur A-291 Sep 27⁷⁰ and case of Nor[wegian] SS *Daviken* which you requested by Hong Kong investigate last Mar-Apr. Hong Kong reported this not first case diversion ships at sea from South Korean destinations.

Believed ur objections polit grounds insufficient weight overcome above arguments. You will note from refAgam SCAP cooperating and view special relationship US to occupation auths Japan impractical subject US exports Japan to R procedure. Special circumstances present polit relations Phil Govt dictate attempt first secure Phil coop rather than subj trade US controls; in addition different geographical situation adequate ground for different treatment. In any case Dept recognizes may have cover Phil in scope controls eventually, and actual form adopted (several alternatives under discussion here) may in fact be completely non-discriminatory. Shld also be emphasized friendly areas Europe now subj these controls, and other friendly areas Far East will likewise be included. Believed therefore can be explained South Korean Govt in inoffensive way.

Re objection ECA administrative review here, all Eur ECA programs subj same review and procedures can be worked out simplify process. Expected that ECA shipments wld be approved without undue delay.

ECA concurs this msg.

Request ur views soonest.

ACHESON

⁷⁰ Not printed.

690.419/10-2549 : Telegram

The Consul General at Batavia (Beam) to the Secretary of State

BATAVIA, October 25, 1949—5 p. m.
 [Received October 25—8:59 a. m.]

846. Reference Department's circular airgram October 11. Petroleum products would be principal item from Indo[nesia] involved proposed control export China. Unlikely tin, bauxite ores would enter such trade. Dutch control subject to change after sovereignty transfer Indo.

BEAM

690.419/10-2549 : Telegram

The Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, October 25, 1949—7 p. m.

3835. Re para 6 DepCirAgam Oct 11, subject export controls for Far East, assume you will seek confirmation Brit agreement selected list 1-B items transmitted for Martin and McIntyre in Deptel 2156 June 22 and confirm to us. Necessary to have agreed list to transmit to other posts as basis for negots.

ACHESON

690.419/11-149 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, November 1, 1949—11 a. m.
 [Received 12:30 p. m.]

4354. 1. Foreign Office in consultation other interested departments is completing draft note subject export controls Far East for delivery in coordination US to France, Netherlands and Belgium (Deptel 3835, October 25). Foreign Office expects give Embassy approved draft shortly for submission Department. Embassy supplying Foreign Office selected list of 1B items as given Deptel 2156, June 22. Although Foreign Office has recollection of having seen such a list, it has no copy in its files. This list will have to be reviewed by Interdepartmental Committee. Embassy would appreciate receiving soonest any comments on list or amendments to list which may be under consideration.

Foreign Office professes difficulty may be encountered in "watching" all 1B items, that they cannot be watched until controls are established, that controls cannot be established until items to be watched

are precisely defined, and that precise definition occasionally presents tedious problem. At instance "other departments" Foreign Office having in mind Macao would prefer include Portugal in list of governments whose cooperation is to be solicited. Foreign Office also inclined to belief program may be jeopardized if shipments to Nationalist China are to be excluded from screening.

DOUGLAS

690.419/11-149 : Telegram

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

Moscow, November 1, 1949—1 p. m.

[Received November 1—7:37 a. m.]

2729. Reference circagram October 11, p. m. 12:40, proposed export control China. Proposals represent concrete step toward desirable goal. We believe the cooperation of governments listed will effectively restrict access of Chinese regime to important items required by new government itself and by USSR which might hope to use Chinese front for own purchases. Significance control proposals augmented by British inclination follow unilateral policy.

Manifestly desirable continue pressure on UK and others to enlarge list controlled items. It appears probable that Peiping regime will with full support USSR hope to obtain maximum imports from non-Communist nations to rehabilitate economy and to commence announced goal of industrialization. Anything from west will mean less burden for Soviet sphere to shoulder. West may anticipate Chinese will exercise rigid control limiting imports to high priority items to conserve exchange while on other hand meeting Soviet demands before making exports available to west.

If non-Communist governments can be persuaded to adopt common policy toward trade with China and above all can be prevented from engaging in fight among selves for China market (which would inevitably lead to extension credit to finance trade), pressure on Soviet bloc will increase, either forcing USSR to underwrite Chinese economy or to admit unwillingness or inability to advance sufficient aid. It appears unlikely that USSR is prepared to make enormous investment necessary to revive and industrialize China. If Chinese can be made aware of this in course of time CCP will be weakened through failure its Soviet friends to produce and growth Titoism⁷¹ in CCP and anti-Communism along [among] Chinese people will be stimulated. While degree cooperation necessary to produce optimum desired

⁷¹ Josip Broz Tito, head of Yugoslav Communist Party and State, who broke with Moscow in June 1948.

effect may be impossible of achievement for practical reasons, any degree of success will have effect of increasing pressure on USSR. We note Portugal not being approached. History Macao as highly successful smuggling base despite shallow harbor suggests desirability at least requiring Portuguese cooperation as matter principle.

BARBOUR

640.419/11-449: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, November 4, 1949—7 p. m.

4000. Urtel 4354 Nov 1, short list 1-B items contained Deptel 2156 June 22 regarded here as firm list items on which we initially desire exchange info. Note however that we wld desire exchange info on any unusual or abnormal shipments 1-B items, and also on complete plants or integrated unit processes metal-working, metal-fabricating or chemical industries. Believed here only experience with controls can indicate clearly items which shld be most carefully watched and exchanges info on basis outlined above shld enable make any adjustments necessary.

US intends screen shipments Nationalist territory in same way and Dept envisages cooperating govts wld do likewise. Comments para 5 cirgram re Taiwan Korea not intended signify exports these areas to be free from scrutiny.

Re Macao, Dept concurs approach Port Govt if Brit Govt deems necessary but desires avoid extending list govts to be consulted to such extent that agreement effective controls delayed or made difficult.

ACHESON

Executive Secretariat Files: NSC 41/1

*Note by the Acting Executive Secretary (Lay) to the National
Security Council*

NSC 41/1

WASHINGTON, November 7, 1949.

UNITED STATES POLICY REGARDING TRADE WITH CHINA

The enclosed letter by the Secretary of State and its attached report on the subject, prepared in response to the President's suggestion that NSC 41 be reviewed, is circulated herewith for the information of the National Security Council.

As suggested by the Secretary of State the enclosure is being referred to the NSC Staff for use in the preparation of a report as a matter of urgent priority for consideration by the Council.

As further suggested by the Secretary of State the views of the Department of Commerce are being sought in connection with the staff study, and the Secretary of Commerce will be invited to participate in any Council consideration of this report.

JAMES S. LAY, JR.

[Enclosure]

The Secretary of State to the Executive Secretary of the National Security Council (Souers)

WASHINGTON, November 4, 1949.

MY DEAR MR. SOUERS: There is submitted here a report on NSC 41: United States Policy Regarding Trade with China. The report has been prepared in response to the President's suggestion that NSC 41 be reviewed. Since NSC 41 is sufficiently broad in scope to cover a wide range of tactics, its revision at this time is believed to be unnecessary.

The attached report, however, presents recommendations for implementation of NSC 41 in the light of the outcome of our recent negotiations with the British on this matter.

Since there are believed to be differences of opinion among the concerned agencies with respect to the method of implementing NSC 41, and since there may be differences also with respect to the policy recommended, it is suggested that you arrange for appropriate NSC staff studies of the attached report, as a matter of urgent priority, with a view to ironing out any differences of view that may appear. It is suggested that the views of the Department of Commerce be sought in connection with the staff studies and that Secretary Sawyer be invited to attend any meeting of the National Security Council at which this report on NCS 41 is considered.

Sincerely yours,

DEAN ACHESON

[Subenclosure]

Memorandum by the Department of State

Subject: Report on NSC 41—U.S. Policy Regarding Trade with China.

1. *Developments Within China.* The general pattern of developments in China since NSC 41 was approved on March 3, 1949, has been along the lines anticipated. The major outline of the pattern has been the steady advance of the Chinese Communists well into south-central and northwest China. Two unforeseen developments, however, have

had consequences of considerable significance. One development has comprised a series of natural disasters—droughts, major floods and typhoon damage—and the other has been the port closure of the Chinese Government which has reduced Shanghai's industrial and commercial activity to a very low level. The cumulative effects of the natural disasters combined with the economic repercussions of the port closure, whether or not it is continued, will undoubtedly mean very severe economic hardship in China for some time to come. On the other hand, it appears that domestic supplies of food and of coal for electric power have been forthcoming in sufficient quantities to prevent economic collapse at Shanghai, and there is no evidence that prospective economic difficulties will bring about the overthrow or collapse of Chinese Communist authority.

The revolutionary turnover of authority, augmented by Chinese Communist propaganda against propertied classes and foreigners, has of itself placed all western, but particularly American, interests in a critical position. Mass unemployment engendered by the Nationalist port closure at Shanghai, which the Chinese Communists attribute to United States policy, has intensified the critical character of the situation. American business representatives at Shanghai have been subjected to duress by Chinese labor for continued employment or for ever increasing terminal wage payments and bonuses. This coercion has had tacit if not active support of Chinese Communist officials. Although labor difficulties appear to have been alleviated somewhat in recent weeks, it remains to be seen whether they can be surmounted and whether the Chinese Communists will permit evacuation of those responsible officials of foreign firms who wish to leave China. Americans and other foreigners in China, whether official or private, are entirely at the mercy of Chinese Communist authority which has no basis in established legal codes and procedures. However, no Americans have thus far been killed in Chinese Communist areas nor has any outright expropriation of American property been reported.

The Chinese Communists have continued to treat United States and other foreign consular officials as private citizens on the ground that their governments do not recognize the authority of the new regimes.⁷² While United States officials could not have reciprocated if the Chinese Communists had wished to maintain an official relationship, the Chinese Communists' attitude has resulted in a severe limitation of consular functions and rights universally respected regardless of political circumstances. Refusal thus far to permit the withdrawal of the Consulate General's staff from Mukden, and the arrest and beating by Chinese Communist police of a United States vice-consul at Shang-

⁷² For correspondence on this subject, see vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists".

hai have constituted the most flagrant violations of international comity. Most of our consular posts, however, have been permitted to maintain their confidential communications with Washington and, considering the circumstances, have on the whole not fared badly.

Chinese Communist propaganda has continued to be hostile toward western governments, particularly the United States, and has recently placed increased emphasis on identity of interest between China and Soviet Russia. While there has been some indication of divergences within the Chinese Communist party regarding domestic and foreign policy, the most reliable evidence suggests that the dominant faction in the part[y] hierarchy is strongly pro-Soviet.

2. *Existing U.S. Control Over Exports to China.* We have been reluctant thus far to impose unilaterally new controls over exports to China because of the possibility that such action would handicap our negotiations with the British, and because of the adverse effect it would have on United States business interests without compensating gains vis-à-vis the Chinese Communists. Nevertheless, the United States Government has meanwhile employed such controls as already existed. The Department of Commerce has for several months been screening applications for export to China and adjacent areas of strategic goods on the "Positive List", and licenses for such goods have been granted only when the evidence indicated that the export was destined for normal civilian consumption within China. Arrangements have been in effect with SCAP for several months, and have recently been instituted with the Joint Export-Import Board for Western Germany and with ECA as regards south Korea, for submission to Washington of any trade proposals involving the export of 1A or 1B list goods* to China and adjacent areas.

Shortly after the capture of Tientsin by the Chinese Communists, the Department requested that the major American oil companies operating in China limit their sales of petroleum to Communist China to normal civilian requirements on a short-term basis, and suggested to the United Kingdom that it make a similar request of British petroleum interests. At the request of the Department, Northwest Air Lines recently withdrew from negotiations with the Chinese Communists for the joint establishment of a Chinese domestic air line, and we have obtained agreement of the British, French, Norwegian and Dutch Governments to take a similar position with respect to possible participation of their nationals in such an enterprise.

*1A and 1B are the two categories of greatest strategic importance under the R procedure of export licensing. The UK now controls only 1A list exports to Eastern Europe whereas the U.S. controls exports to that area of both 1A and 1B goods as well as other categories of lesser importance. [Footnote in the source text.]

3. *Negotiations with the British.* NSC 41 stated that "British cooperation, with particular reference to the entrepôt center of Hong Kong, would be essential to the effectiveness of United States controls" over strategic exports to China. British agreement to cooperate has been considered a prerequisite to an approach for cooperation by any other government. Negotiations with the British have been carried on actively since February 1949, including the dispatch of a special mission to London in late June. We have urged the British to impose export controls for the following purposes: (a) to deny goods of direct military utility to the Chinese Communists, (b) to prevent transshipment via China to the USSR, eastern Europe and north Korea of goods of high military value which are denied to those destinations by the United States and western European governments (1A list goods)†, (c) to demonstrate western ability to control, and to restrict, if necessary, strategic goods of key importance to the Chinese economy (a highly selected group of 1B list goods†). We have stressed the third purpose, pointing out that such controls would represent the most important single instrument available for use vis-à-vis the Chinese Communists in protecting vital western interests in China and the Far East.

Despite our request for reconsideration at the highest level, the British have maintained consistently that they were not prepared to impose controls over 1B exports to China, and this position was reaffirmed in the course of the recent discussions between their Foreign Minister and Secretary of State. The British stated that they did not believe such controls would accomplish the desired results; that they would be regarded by the Chinese Communists as a threat to impose economic sanctions and might thereby jeopardize the position of Hong Kong and substantial British investments in and trade with China. They have expressed their willingness, however, to control 1A list exports to China from the United Kingdom, Hong Kong and Singapore, provided prior assurances can be obtained regarding similar action by the French, Dutch, Belgian and Philippine Governments and SCAP. They also proposed that the United States, United Kingdom and Dutch Governments collaborate in persuading the major oil companies to refrain from petroleum sales to China on a long-term contract basis and in excess of normal civilian requirements. Finally, they have offered to observe and to exchange information with the United States on the movement of 1B goods to China with a view to joint consulta-

†1A and 1B are the two categories of greatest strategic importance under the R procedure of export licensing. The UK now controls only 1A list exports to Eastern Europe whereas the U.S. controls exports to that area of both 1A and 1B goods as well as other categories of lesser importance. [Footnote in the source text.]

tion regarding corrective measures if it appeared that the flow was excessive or injurious to our common interests.

We have accepted the above British offers, although expressing our hope that they would at a later date be able to reconsider the matter of 1B controls. It was agreed that cooperation would be sought by the United Kingdom from Commonwealth governments, that the United States and United Kingdom would make parallel approaches to the French, Dutch and Belgian Governments, and that the United States would undertake to obtain Philippine agreement. We assured the British that SCAP was already controlling strategic Japanese exports to China, and that we would take such steps as were necessary to control transshipments of strategic goods in south Korea.

4. *Proposed United States Action.* The Department of State will proceed to obtain the cooperation of other governments along the lines agreed with the British. Meanwhile, in order to guard against transshipment via China of exports that the United States otherwise denies to eastern Europe and the USSR, the R procedure should be promptly extended to cover China and adjacent areas.

The R procedure requires export licenses for a wide range of goods, including those on the 1A and 1B lists, and therefore represents a much more comprehensive system of export controls for China than the British and other governments have now or are expected to create. Only a very limited number of 1A list goods, if any, would be related to normal civilian uses within China. In view of their high security character, it is believed that 1A goods should be subject to presumptive denial, although exceptions might be made on a case by case basis where it would serve United States interests to do so.

Restrictive licensing of United States exports in the 1B and lower categories under the R procedure should be undertaken primarily to guard against transshipment via China to the USSR and eastern Europe of goods that are otherwise denied those areas. North Korea, which is subject to complete Soviet control, should be treated in the same manner as an eastern European satellite. Since the USSR is in a position to control major rail shipments in Manchuria, and could thereby readily effect transshipments to the Soviet Union or north Korea, 1B exports for Manchuria should be licensed very conservatively. Exports of 1B and lower categories of goods for use within China proper should be licensed in accordance with normal civilian requirements, subject to appropriate screening to guard against their transshipment or use for direct military purposes by the Chinese Communists.

Although the effect of recent developments in China on American nationals has been a cause of much concern, it has not been such as to alter the basic assumptions and concept of NSC 41. It is not be-

lieved that strategic and practical considerations now warrant the imposition by the United States Government and SCAP of greater restrictions on exports for normal civilian use within China than can be applied effectively through multilateral action. So long as the Chinese Government port closure continues to be relatively effective, there will be very little trade with China to restrict, and for some time to come the Chinese Communists are not likely to acquire sufficient foreign exchange to import more than a very moderate volume of goods. It is clear from the outcome of our negotiations with the British that the Chinese Communists would frequently be able to find a ready substitute in the markets of western Europe for such American or Japanese exports as might be denied. The effectiveness of unilateral United States restrictions would therefore be only marginal at best.

The net effect of such action would be to penalize American exporters and to demonstrate the impotence and disunity rather than the power and solidarity of western governments in the field of economic relations with the Chinese Communist regime. Over the long run, maintenance of severe restrictions on Japanese exports to China would pose a serious obstacle to achievement of Japanese self-support and would require a major reprojecion of the future magnitude and duration of United States financial support for the Japanese economy.

The policy outlined by NSC 41 is sufficiently broad in scope, however, to provide a basis for the imposition of severe restrictions on ordinary trade with China if Chinese Communist actions inimical to United States strategic interests should make it necessary to do so. The present critical situation in China must be followed closely with a view to taking such action in the economic field as may be required and as can be taken effectively in new circumstances.

5. *Recommendations.* It is recommended that :

- a) Since NSC 41 provides a sufficiently broad scope for a flexible policy, it not be revised at this time ;
- b) The R procedure be extended promptly to China and adjacent areas ;
- c) Exports of 1A goods be subject to presumptive denial, with possible exceptions on a case by case basis where United States interests would be served thereby ;
- d) Exports to China in the 1B and lower categories of the R procedure be licensed in accordance with normal civilian requirements, subject to appropriate safeguards against their use for direct military purposes by the Chinese Communists and against transshipment to the USSR, eastern Europe and north Korea of goods that are otherwise denied to those destinations ; exports to north Korea be licensed in the same manner as for eastern European satellites ;

- e) Arrangements be made to ensure control of exports to China from Japan and western Germany in accordance with the above criteria;
- f) This position be subject to continuous review in the light of future developments.

690.419/11-949 : Telegram

The Chargé in the United Kingdom (Bliss) to the Secretary of State

LONDON, November 9, 1949—noon.
[Received November 9—8:04 a. m.]

4484. Deptel 4000, November 4. Substance reference telegram given Foreign Office yesterday. According Tomlinson, Far Eastern Dept, lists of 1-B items (Deptel 2156, June 22) may take some time to clear with interested Government depts. Accordingly, British draft note to France, Belgium, Holland and now to include Portugal will not transmit copy of either 1-A or 1-B list in order not to delay matters and will merely ask for agreement in principle. Copy of draft note will be transmitted "next day or two" British Embassy Washington for transmittal Department.

BLISS

693.419/11-2049 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, November 20, 1949—2 p. m.
[Received 9:27 p. m.]

4628. Embtel 4484, November 9. According Tomlinson, Foreign Office instructions to British Embassy Washington transmitting draft note re China trade controls for discussion with Department almost ready for despatch. Ministry Defence has questioned practicability of identifying selected 1-B items for "watching". Embassy representatives informed Tomlinson BoT⁷³ had been exchanging data with US re entire list 1-B shipments to eastern Europe, so that no great difficulty should be encountered. Defence also concerned over possible release 1-A items to Chinese Nationalist areas "under conditions that serve national interests of cooperating governments" (paragraph 5, Depcirair October 11) since Defence fears these will ultimately fall into hands of Communist Chinese. Foreign Office hopes resolve these two remaining questions, and release instructions. Participation

⁷³ (British) Board of Trade.

Portuguese being urged, though not being considered by Foreign Office as condition to initiation of program among other four powers. Foreign Office queried whether Portuguese fully familiar 1-A and 1-B lists. Please instruct.

Embassy representatives suggested Tomlinson incorporate in instructions reference to timing "parallel approach" Paris, Hague, and Brussels.

Sent Department 4628, repeated Paris 901 (for OSR), The Hague 207 (for ECA), Brussels 215 (for ECA).

DOUGLAS

693.419/11-2849

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

No. 1888

LONDON, November 28, 1949.

[Received December 5.]

SIR: A copy of the draft of a note which the Foreign Office proposes to discuss with the Department of State through its Embassy in Washington and thereafter to send to its Embassies in Paris, Brussels and The Hague has been forwarded to this Embassy together with a transmitting note giving additional explanations.

Although it is understood that the draft note is being communicated to the Department of State, it is felt that the Department might wish to have it incorporated in a despatch and the text of the additional explanations may be found useful if the British Embassy conveys them to the Department orally. Both documents are therefore enclosed.

Respectfully yours,

For the Ambassador

F. P. BARTLETT

First Secretary of Embassy

[Enclosure 1]

Draft British Foreign Office Note

His Majesty's Government and the United States Government, in the course of recent discussions, agreed to the desirability of taking steps to ensure that Western trade with China should not result in any increase in the military strength of the Chinese Communist administration; and it was considered that one essential measure would be the imposition of controls over the export or re-export to China of goods of potential strategic significance.

His Majesty's Government already control the export from the United Kingdom of many such goods to a wide variety of destinations

including China. The French, Netherlands and Belgian Governments will recall that meetings were convened in Paris on October 12th and November 14th by the French Government to consider with certain other Governments the adoption of a common policy for the denial to certain Eastern European countries of goods to be included in an agreed list. Provided that the other Governments most directly concerned were prepared to take similar action, H.M.G. would be prepared to extend this denial to cover the whole of China and to arrange with the Governments of Singapore and Hong Kong to prevent the transshipment in those ports of any item on the agreed list from whatever source. H.M.G. make this proviso because they consider that the controls envisaged would be ineffective without the necessary cooperation among interested Governments and would not be maintained by Colonial Governments without the assurance that effective controls were being enforced in neighboring territories.

H.M.G. accordingly have the honour to express the hope that

1. the French Government, in respect of both their Metropolitan and Far Eastern Colonial territories
2. the Netherlands Government, in respect both of their Far Eastern and Colonial territories
3. the Belgian Government

will be prepared to agree in principle to impose controls over the export or re-export to China of goods in the agreed list referred to in the second paragraph above.

H.M.G. and the U.S. Government are also agreed on the desirability of watching closely and exchanging information on the export to China of a separate selected list of items considered to be of especial importance to the Chinese economy. A suggested list is now under consideration and it is proposed that its exact composition should be the subject of later consultation and decision.

It is understood that the Supreme Commander for the Allied Powers in Japan is already controlling strategic exports to China, and that the U.S. Government are prepared to obtain the cooperation of the Government of the Republic of the Philippines.

A similar communication is being addressed to

1. the Netherlands Government, who are being invited to cooperation in respect of their Metropolitan and their Far Eastern Colonial territories, and to the Belgian Government,
2. the French Government, who are being invited to cooperate in respect of their Metropolitan and Far Eastern Colonial territories and to the Belgian Government,
3. the French and Netherlands Governments, who are being invited to cooperate in respect both of their Metropolitan and their Far Eastern Colonial territories,

and the following members of the Commonwealth are also being approached⁷⁴

[Enclosure 2]

The Assistant Head of the Far Eastern Department of the British Foreign Office (Tomlinson) to the First Secretary of the American Embassy in the United Kingdom (Bartlett)

[LONDON,] 22 November, 1949.

DEAR FRED: AS I promised you the other day, I am now sending you the text of a Note for eventual communication to the Belgian, Netherlands and French Governments which we have sent to our Embassy in Washington by air. We have asked our Embassy to communicate this draft Note to the State Department for any comments they may wish to offer, and we have also asked them to make the following additional explanations.

(a) We should prefer to deal with the Macao question by inviting the cooperation of the Portuguese Government, and we would propose to address to them a Note on the same general lines as the attached draft, with the necessary consequential amendments to take account of the fact that the Portuguese Government have not been associated with the negotiations for denying an agreed list of goods to certain Eastern European countries.

(b) We are perturbed to learn that the United States proposal "does not preclude the licensing of 1A exports to Chinese Nationalist areas . . .⁷⁴ under conditions that serve the national interest of the cooperating Governments." We consider that the risks that supplies consigned to Nationalist China will eventually fall into Communist hands are now so great that the effectiveness of any system of control will be gravely prejudiced unless it is applied to China as a whole.

(c) We assume that the State Department will be letting us see the texts of the Notes they themselves propose to communicate to the Governments concerned, and we should be glad to have an indication of the State Department's views on timing.

You remember that we discussed the question of the list of 1B items whose movements is to be watched. I have let the section of the draft which deals with this question stand as it was for the time being, since I have not been able to clear the point with Gresswell⁷⁵ who, as you know, is at present inaccessible.

Yours sincerely,

TOMMY
(F. S. Tomlinson)

⁷⁴ Omission indicated in the source text.

⁷⁵ H. Gresswell, Representative from the British Ministry of Defense, who took part in the technical discussions in June.

693.009/12-849

*Memorandum of Conversation, by Mr. Robert M. Magill of the
Division of Chinese Affairs*

[WASHINGTON,] 8 December 1949.

Participants: FE—Mr. Merchant
CA—Mr. Barnett, Mr. Magill
ITP—Mr. Armstrong
EUR—Mr. Jackson
Mr. Graves—British Embassy
Mr. Ford—British Embassy
Mr. Burns—British Embassy

Mr. Graves called today with his colleagues from the British Embassy to present a draft on the subject of export controls to China which the Foreign Office intended should be submitted to the French, Dutch and Belgian Governments as a parallel to a similar note which the British anticipated that the U.S. would transmit. Mr. Graves indicated that the British would be happy to consider any changes or additions that we might wish to suggest and that they would, of course, like to see a draft of our note with an opportunity to comment before it was transmitted.

The draft British note was accompanied by an informal memorandum⁷⁷ commenting on several aspects of the problem. Mr. Graves summarized the contents of the memorandum, emphasizing particularly the British concern that our intention to except Taiwan from an embargo of 1-A exports would represent a serious breach in the policy which might well undermine its basic structure. Mr. Merchant explained the U.S. position regarding exports to Taiwan, indicating that while 1-A exports to Taiwan would be subject to the same controls and close scrutiny as exports to China itself, we could not consider at this time shutting the door on all exports to Taiwan in the 1-A category—that to do so might ensure Communist occupation of the island. He asked Mr. Graves whether the British considered that U.S. agreement to deny all 1-A exports to Taiwan was a prerequisite to their cooperation on the general implementation of controls vis-à-vis China. Mr. Graves indicated that he could not interpret the views of the Foreign Office beyond the face value of the language contained in the memorandum.

Mr. Merchant observed that the draft British note did not address itself to our desire for collaboration by the Dutch Government in arrangements with the major oil companies to control petroleum sales to China, and queried whether the British felt that this matter should be taken up separately with the Dutch. Mr. Graves responded that he

⁷⁷ See enclosures, to despatch No. 1888, *supra*.

assumed that it would not be necessary to discuss the matter with the Dutch Government since it could be handled adequately through British interests in Shell. Mr. Magill recalled that the original British proposals in their note of last August had called for an approach to the Dutch Government on this matter, and Mr. Merchant commented that, since Dutch interests would be involved, it would seem only appropriate that the proposed arrangements with the companies be discussed with the Dutch Government.

Mr. Merchant concluded by stating that we would give the British draft further consideration and that we would, of course, show them a copy of our proposed note as soon as it had been prepared.

693.009/12-2049

The Department of State to the British Embassy

MEMORANDUM

The Department of State has studied carefully the proposed note to the French, Belgian and Netherlands Governments regarding export controls for certain Far Eastern areas, which was enclosed with the British Embassy's memorandum of December 8, 1949.⁷⁸

The Department concurs in the general tenor of the proposed communications to the other Governments, with certain suggested changes and additions. The Department believes, however, that it would be unwise to present the subject to the Governments in a formal communication of any kind, and prefers to place it before them in an informal memorandum which might be the basis of informal oral discussion and agreement, to be confirmed by the Governments addressed by means of an informal memorandum informing us of their unilateral decisions to adopt the system of controls desired. It is understood that formal agreements relating to trade are required to be registered with the United Nations, and that for this reason consultations regarding export controls for Eastern European countries have been conducted in this manner.

The Department concurs in the view of the British Government that it is preferable at this time merely to seek the agreement of the Governments to an extension to the Far East of the system of control agreed on with respect to Eastern Europe, and to leave for determination by subsequent consultation the definition of commodities to be watched with a view to exchange of information.

Finally, the Department is happy to note, in the British Embassy's memorandum of December 20 [19], 1949,⁷⁹ that the Foreign Office is

⁷⁸ See despatch No. 1888 and enclosures, p. 897.

⁷⁹ *Post*, p. 1035.

prepared to request the cooperation of the Netherlands Government in an effort to control sales and shipments of petroleum products to China. The two draft communications attached, one to be addressed by the U.S. Government to the French and Belgian Governments (with alterations to suit the case), and the other to the Netherlands Government, differ in the addition of this request in the communication to the latter Government. The attached drafts represent the Department's views concerning what should be said to the Governments we intend to approach.⁸⁰ The significant differences between the Department's drafts and that submitted by the British Embassy are discussed below.

In the first paragraph of the Department's draft two reasons, rather than one, are given for the desirability of imposing controls on trade with designated areas of the Far East. As the British Government is aware, the United States Government is concerned both with the possibility of an increase of Chinese Communist military strength and with the possibility of transshipment via the Far East of strategic commodities now denied to certain Eastern European countries in direct channels of trade. The Department of State therefore believes the latter is an additional weighty consideration which should be mentioned in seeking the cooperation of other Governments, especially if reference is to be made (as the Department agrees that it should be made) to the meetings of November 14 which were concerned solely with the Eastern European problem. In the second paragraph of the Department's draft North Korea has been added to the whole of China (including Formosa) as an area to which exports of strategic commodities should be controlled. Since it is obvious that North Korea might provide a loophole potentially nullifying the effect of any restrictions that might be agreed on, it is believed that the British Government will readily perceive the necessity of adding it to the areas to which exports should be restricted.

One change that might appear to be of a minor nature should be noted, in order that the British Government may be aware of the exact position with reference to the Government of the Philippines. In the fifth paragraph of the British Government's draft it is stated that "the United States Government are prepared to *obtain* the cooperation of the Government of the Republic of the Philippines." It has been reported to the Department that a recent decision of the Supreme Court of the Philippines has voided what were believed to be the powers of the Philippine executive to prescribe and enforce export

⁸⁰ For draft for informal communication to the Netherlands Government, see *infra*; draft for informal communication to the French and Belgian Governments not printed. The latter draft is the same in substance as the former with omission of the last paragraph regarding petroleum products.

control regulations, and it appears that additional legislation may be necessary to authorize the Philippine Government to establish such regulations. For this reason the Department would prefer to see the statement in the British Government's draft read as follows: "the United States Government are prepared to seek the cooperation of the Government of the Republic of the Philippines."

With reference to the proviso contained in the second paragraph of the British Government's draft concerning the cooperation of "other Governments most directly concerned", the United States Government understands that the quoted phrase in the British draft refers only to the French, Belgian and Netherlands Governments.

The Department of State agrees that, if the British Government deems it advisable because of the special relations of Macao to Hong Kong, the Portuguese Government might be asked to cooperate; but the Department does not think the cooperation of the Portuguese Government should be made a condition of adopting the proposals if the other Governments agree to cooperate. The Department has not envisaged that the United States Government would approach the Portuguese Government but is prepared to support an approach by the British Government if such support is desired.

With reference to timing, the United States Government desires to proceed with our approaches to the other governments as soon as the nature and texts of the communications are agreed upon.

Finally, with reference to the comments of the British Government with respect to the possibility that the United States Government might, under its proposal, license some 1-A list exports to Chinese Nationalist areas, it is noted that in the view of the British Government this would seriously prejudice the effectiveness of the proposed controls. The British Government expresses the hope that the United States will be prepared to revise its view on this point, and notes that under United Kingdom practice prohibited goods of United States origin would be automatically stopped at Hong Kong.

The United States Government appreciates the concern of the British Government at the possibility that such goods might fall into the hands of the Chinese Communists, and agrees that the proposed control system should apply to China as a whole, including Formosa. As a matter of fact under present United States practice all 1-A list goods are under license control to the whole of China, including Formosa; licenses for exportation to those destinations are granted only as exceptions to the general rule, after careful review of each individual case, and only when in the opinion of the United States Government such export is advantageous to United States and western interests. In view of the United States Government an embargo of United States exports of munitions and 1-A list goods at this time almost

certainly would lead to the collapse of Chinese Government resistance and a prompt surrender of Formosa to the Chinese Communists—an event which surely could be in the interests neither of the United States Government nor of the British Government.

While the United States Government cannot, therefore, agree to an automatic embargo of all 1-A list exports to China including Formosa, and North Korea, it is prepared to engage in the process of consultation and information exchanges called for in the attached draft notes and to consider sympathetically British views regarding licensed exports to Formosa of particular types of such goods.

WASHINGTON, [December 30, 1949.]

[Annex]

DRAFT INFORMAL COMMUNICATION TO THE NETHERLANDS GOVERNMENT

The United States Government and the British Government, in the course of recent discussions, agreed on the desirability of taking steps to insure that western trade with China and North Korea should not result in any increase in the military strength of the Chinese Communist regime, and that certain Eastern European countries should not be enabled to obtain, by transshipment via China and North Korea, supplies of goods now denied them by the Western Governments in direct channels of trade; and it was considered that one essential measure would be the imposition of controls over the export or re-export to China and North Korea of goods of the highest security significance.

The United States already controls the export of such goods from the United States to all destinations except Canada. The Netherlands Government will recall that meetings were convened in Paris on November 14 by the French Government to consider with certain other Governments the adoption of a common policy for the denial to certain Eastern European countries of goods to be included in an agreed list. In view of the possibility that such denial might be ineffective if agents of those countries were permitted to obtain such goods freely through China and North Korea, and in view of the dangers to western interests in Asia and the Pacific in permitting the Chinese Communists unrestricted access to materials that will directly increase their military strength, the United States Government suggests the extension of the common policy of control to cover the whole of China, including Manchuria and Taiwan, and North Korea.

The United States Government accordingly hopes that the Netherlands Government (in respect both of its metropolitan and Far Eastern territories) will be prepared to impose controls over the export or re-export to China and North Korea of goods in the agreed list re-

ferred to in the second paragraph above as it may be subsequently amended by agreement. It is believed that such control should be for presumptive denial to the Chinese Communists and North Koreans of all exports on the agreed list, with the possibility of exceptions on a case by case basis after consultation among the cooperating Governments. On the other hand, exports to areas controlled by the Chinese Nationalist Government, although subject to control and careful scrutiny, would be licensed where it served the interests of one or more of the cooperating Governments to do so. The United States is prepared to arrange that the Netherlands Government receive reports on such exports actually licensed by the U.S. Government.

The United States Government and the British Government have also agreed on the desirability of watching closely, and of exchanging information on, the export to China and North Korea of a selected list of items considered to be of especial importance to the Chinese economy. A suggested list is under consideration and it is proposed that its exact composition should be the subject of later consultation and agreement.

The United States Government is prepared to seek the cooperation of the Government of the Republic of the Philippines, and it is understood that strategic exports to China and North Korea from Japan are being controlled. It is also understood that the British Government is approaching certain members of the British Commonwealth of Nations on the same subject.

A similar communication is being addressed to the Belgian Government and to the French Government, which is being invited to cooperate with respect to its metropolitan and Far Eastern territories.

The United States Government and the British Government have also, considering the critical importance of petroleum supplies to Chinese Communist military strength as well as to the Chinese economy, agreed that an effort should be made to prevent the Chinese Communists from obtaining dangerous quantities of such products by arranging for the voluntary cooperation of the major petroleum companies of their respective nationalities in an agreed program for restricting shipments of petroleum to China to the kinds and quantities essential for the normal civilian economy of China. Since the effectiveness of such a program necessarily depends on the cooperation of all the major suppliers of petroleum products to China, the United States suggests to the Netherlands Government the desirability of adopting a similar policy with respect to Netherlands petroleum companies. The United States is prepared to discuss this subject with the Netherlands and British Governments in detail with a view to arriving at a common understanding.

WASHINGTON,

693.419/11-2849: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, December 31, 1949—6 p. m.

4665. On Dec 8 Brit Emb gave Dept draft note to Fr, Belg, and Dutch Govts re export controls for China identic text contained Emb's Desp 1888 Nov 28 together with Memo commenting in sense Tomlinson's ltr to Bartlett of Nov 22. Dept transmitted to Emb Dec 30 responsive memo and draft US communications to European Govts. Dept expressed hope that, if FonOff agrees Dept revisions, UK communications can be made parallel US memos on substantive points. Texts Dept Dec 30 communications follow by separate wires.⁸¹

Request Emb follow matter urgently with FonOff with view parallel transmission agreed US and UK communications to European Govts prior Jan 9 mtg Paris consultative group on trade controls. No intention place China on agenda this mtg, but highly desirable US and UK be in position discuss informally with Fr, Belg and Dutch reps policy and technical aspects proposed China controls. Not necessary that prior agreement European Govts concerned be obtained this purpose, but they shld have received US and UK communications.

ACHESON

II. CHINESE COMMUNIST FOREIGN TRADE PRACTICES: BY-PASSING OF AMERICAN CONSULATES; SOVIET-MANCHURIAN TRADE AGREEMENT

611.9331/2-449: Telegram

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

SHANGHAI, February 4, 1949—8 p. m.

[Received February 10—10:44 p. m.]

390. In view apparent refusal Communist authorities in Tientsin and Mukden have anything to do with Consulates there,⁸² in absence recognition, I consider it vital we should have most effective possible means force them deal with us in Shanghai after they take city. I suggest for this purpose it might be advisable make clear no import or export trade between Shanghai and US will be permitted except

⁸¹ Nos. 4666 and 4667, December 31, 6 p. m., neither printed.⁸² For correspondence on the difficulties experienced by American consulates in areas held by Chinese Communist forces, see vol. VIII, "Problems of United States areas occupied by the Chinese Communists".

after recommendation from this Consulate that it should be. I assume this could be done under existing control and allocation powers appropriately revised. Since it would be very grave blow to Shanghai if international trade were crippled I feel such step would practically force Communists deal with US. They would practically have to obtain numerous products including oil, food and cotton.

I am apprehensive in absence some such policy Communists will obtain needs by dealing with individual companies which may be eager to try save their own skins at expense over-all American interests. Success of scheme would probably depend on British cooperation which I believe they would be disposed to give. Their cooperation would have to include Hong Kong.

My thinking is when Communists enter, a clear understanding with them will be necessary on numerous points. For example, entrance American merchant ships and commercial planes, withdrawal marines, future stationing warship in river, respect for commonly accepted diplomatic and consular prerogatives, protection American citizens and their property. If Communists realized they could not get what they needed until they had given clear undertakings above points, it would greatly facilitate our task here.

Would appreciate Department's reaction.

Sent Department 390, repeated Canton 13, pouched Nanking 288.

CABOT

195.91/2-1049: Telegram

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

SHANGHAI, February 10, 1949—10 a. m.

[Received February 9—11:53 p. m.]

458. APL⁸³ ship *President Fillmore* due Tangku about February 18. ConGen Peiping⁸⁴ has inquired as to identity consignees and description cargo. APL Shanghai requests assistance ConGen Peiping ascertaining from Communist authorities possibility entrance Tangku and any unusual entry requirements. This may be good opportunity maneuver Communist authorities into permitting Shanghai communicate ConGen Tientsin,⁸⁵ assuming Communists are anxious for cargo to be delivered. Department may wish consider advisability requesting APL not to send ship Tangku unless master receives advance permission communicate with ConGen Tientsin and obtain shipping services normally accorded by consular officers to ships of American registry.

⁸³ American President Lines.

⁸⁴ O. Edmund Clubb.

⁸⁵ Robert L. Smyth.

Sent Department, repeated office [of] Embassy [at] Canton 35. Department please pass Peiping as 33, Tientsin as 22.

CABOT

195.91/2-1049: Telegram

*The Secretary of State to the Consul General at Shanghai (Cabot)*⁸⁶

WASHINGTON, February 12, 1949—4 p. m.

268. *Pres Fillmore's* projected call Taku Bar (Shanghai's 458 Feb 10 passed Peiping 33, Canton 35 but not relayed Tientsin) discussed local APL reps. APL indicated no assurances recd agents Tientsin via Shanghai other than re lighterage. Dept expressed surprise APL willing assume risks without first obtaining adequate assurances re treatment Comm hands. After discussion risks involved, APL reps stated intention instruct Master *Pres Fillmore* offload Taku Bar cargo at Yokohama where ship docked late Feb 10 prior proceeding Fusan and Taku Bar. If satisfactory arrangements, including appropriate assurances from Comms re lighters, access to usual ConGen services, guarantees of delivery to consignees, safe treatment vessel and personnel, etc., can be completed, APL will trans-ship cargo Taku Bar. APL indicated should be able pick up Tientsin cargo Yokohama approx 2 weeks. Dept suggested APL reps instruct agents Shanghai endeavor contact agents or consignees Tientsin with request they obtain Comm assurances, preferably via direct radio communication ConGen Tientsin (his own or commercial facilities) to ConGen Shanghai for info APL, that vessel will be accorded customary treatment and that ConGen Tientsin will be permitted exercise normal functions re ship's documentation and movements. It is Dept view that it would be preferable ConGens Shanghai, Peiping, Tientsin take no initiative this matter but extend appropriate assistance APL agents as requested by them. This course designed avoid convey impression to Comms they would be doing US Govt favor by permitting US ship discharge cargo Comm port and ConGen exercise normal functions in relation thereto, but rather indicate access foreign trade depends provision customary courtesies and indicated assurances. APL documentation indicates *Fillmore* cargo Tientsin consists normal commercial shipments, largely industrial supplies and equipment.

Peiping endeavor inform Tientsin.

ACHESON

⁸⁶ Repeated to the Consul General at Peiping as telegram No. 76.

195.91/2-1449 : Telegram

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

PEIPING, February 14, 1949—5 p. m.
[Received February 14—5:45 a. m.]

230. ReDeptel 76, February 12.⁸⁷ Peiping representative Bryner and co-acting as agent APL SS *President Fillmore* informed today permission granted unloading vessel Tangku and arrangements completed. He reported also he had accordingly informed APL Shanghai by telegram.

Repeated Shanghai 188, Nanking 183.

CLUBB

195.91/2-2449 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, February 24, 1949.
[Received February 27—4:49 a. m.]

123. APL vessel *Fillmore* called Taku February 19, offloaded 1280 tons commercial import cargo for Tientsin without incident and sailed for Shanghai February 22. This was first merchant vessel any registry to call Taku with general commercial import cargo since Tientsin taken January 15.

Lighterage handled by local Communist-controlled China Merchants Steam Navigation Company. APL agent desired use British private-owned Butterfield and Swire lighters but authorities refused on grounds B and S operations on Haiho⁸⁸ not yet worked out.

Agent learned of vessel's call February 2 telegram from his Shanghai office via Peiping due absence direct external communications to and from Tientsin. Discharge of cargo and lighterage was approved Yen-an⁸⁹ authorities several days prior vessel's call and followed application to them by APL agent through local Foreign Affairs office.

Fillmore's call raised morale isolated Tientsin foreign community and precipitated some official action toward reviving foreign trade, shipping, banking, external communications and travel by foreigners who heretofore not granted permits for movements out of city save for few KMA⁹⁰ personnel go Tangshan mines. Procedure of a sort forthcoming with requirements of trade, travel and communications to be in process of formulation. This development might have been

⁸⁷ See footnote 86, *supra*.

⁸⁸ Hai River.

⁸⁹ Shensi headquarters of Chinese Communist Party.

⁹⁰ Kailan Mining Administration.

delayed for month if vessel had not come. While procedures not worked out in time to load *Fillmore* with export cargo or to carry outbound passengers, there is possibility issue regulations re export, banking, communications and foreign passenger travel prior arrival next APL boat expected 2 or 3 weeks. Applications for exit permits being accepted from local foreign residents as of February 21 and several already reported issued.

Business have raised question of consular invoices for ex[port] cargo shipments to US in view Communist nonrecognition foreign consulates. Ascertain if consular invoices at this Consulate General will be required on all export cargo for US. We believe we should issue consular invoices in interest of reviving foreign trade which Communists say they desire, [apparent omission] proved one of best means convey problems, desires of foreigners to local authorities. Captain *Fillmore* confronted authorities with making decisions on concrete problems re foreign trade and educated them more intercourse with foreign countries than month's academic discussion. Agree helpful break log jam official indecision and inactivity problems raised by foreigners as this greatest problem faced by foreigners.

Believe we should continue issue consular invoices but at same time point out we do so only provisionally in view Communist attitude on recognition consular status. Apparent Communist desire revive foreign trade, believe certification of consular invoices might be used as lever bring recognition consular status.

Some shippers suggested possibility circumventing need for consular invoice certification at Tientsin by shipping via Hong Kong or other ports where invoices could be obtained. As certification consular invoices here might be strong bargaining point in informal dealing with local authorities, suggest consuls particularly Hong Kong be instructed refuse certification invoices covering cargo from this consular district. Request Department's views through Peiping.

[SMYTH]

611.9331/3-1049 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, March 10, 1949—noon.

[Received March 13—2:49 a. m.]

132. Indications are Communists anxious to revive foreign trade on which livelihood large part population Tientsin depends. We believe our authority to certify invoices (our telegram 123, February 24) may be useful lever in dealing with local authorities. To date authorities

continue non-recognition consular status and we in no position to press on any question.

Since Communist capture Tientsin, no invoices have been presented certification but with resumption of shipping we can expect requests for invoice services. We propose to certify invoices for exports from Tientsin as revival of normal trade desirable but we feel that threat not to certify invoices unless we granted normal facilities may prove an effective card.

Communist authorities reported to intend by-passing Tientsin Consulate (and perhaps Peiping and Mukden) by shipping to Hong Kong or Shanghai and invoicing there. In order for invoice certification to be effective weapon, we recommend Consulates in non-Communist parts China and Hong Kong be instructed not to certify invoices covering goods originating Communist China. Furthermore, Treasury Department should be requested to fix penalty bond, for merchandise from this area not covered by invoice, in amounts sufficient to deter entry without invoice.

Tientsin American Chamber Commerce strongly endorses above recommendation. If Department concurs and will so instruct concerned offices, please advise so that we may give informal publicity locally.

To assist Consulates in Hong Kong and non-Communist parts China in spotting products from this area, the principal exports are bristles, woolen rugs and carpets, furs, raw wool, straw braids, walnut meats, egg products.

SMYTH

611.9331/3-1249: Telegram

*The Secretary of State to the Consul General at Peiping (Clubb)*⁹¹

WASHINGTON, March 12, 1949—2 p. m.

121. For Tientsin [as No.] 55. Dept exploring possibility use invoice certification as leverage obtain Commie permission access by ConGens to confidential radio communications. (Tientsin's 123 Feb 24 and Shanghai's 390 Feb 4 pouched Nanking 288). Envisage ConGen Tientsin and later Shanghai inform applicants [for] invoice certification that unable do so without continuous access [to] coded as well as plain language radio communications in order keep abreast current regulations and procedures and take up irregular cases Washington. If Treasury agrees, Customs would refuse entry Tientsin direct im-

⁹¹ Repeated to the Ambassador in China, the Consul General at Shanghai, and the Consul General at Hong Kong as telegrams Nos. 333, 470, and 142, respectively.

ports unless bond equal value goods put up subject cancellation if invoice certified at port of origin produced within 6 months. This approach would attempt make condition code communications appear procedural aspect performance normal consular function and avoid interpretation by Commies as US Govt adoption pressure tactics. Result presumably would be pressure by exporters on Commies who might be expected permit code communication in interest trade revival unless isolation ConGens is over-riding policy consideration.

British cooperation refuse Tientsin imports, particularly Hong Kong, necessary since not feasible Dept instruct ConGen Hong Kong refuse certify HK invoices on Tientsin exports re-exported via HK. Dept unaware any procedural device British could use to cooperate, but will explore matter with them if Treasury agrees.

Dept reluctant employ this device if Commies likely consider it resort econ warfare, or if in your opinion they not likely give way on communications, with possible result trade diverted via Dairen and north Korea and American [and] British business discouraged. If you have been certifying invoices, sudden refusal do so might have above repercussions. Have you certified any invoices since take-over? If so, in what volume and under what circumstances?

Request your evaluation reaction exporters and Commies this approach and its probable consequences, assuming British cooperation forthcoming. Obviously, device could for time being be circumvented by transshipment and re-export Shanghai since ConGen Shanghai could not now refuse certify invoices such exports, but device should be initiated now at Tientsin for sake consistency if it is to be employed at all. What is extent Commie desire resume foreign exchange exports? Are they likely stall until they can be sure exchange proceeds will be available Tientsin imports?

If you believe device could be applied successfully without undue risk, suggest you postpone certification invoices pending further instructions on grounds your uncertainty regarding present procedures and need for clarification from Washington. If you decide postpone certification, above explanation should be couched in terms your own decision since Dept wishes avoid any impression that US is considering restrictive economic measures regarding trade with Commie areas China. Thus, you could without embarrassment resume certification if negative decision reached here.

Reply soonest. Request comments Nanking, Shanghai, Peiping, Hong Kong and Taipei [for] Merchant.⁹²

ACHESON

⁹² Livingston T. Merchant, Counselor of Embassy in China on special detail at Taipei.

800.8890/3-1449 : Telegram

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

SHANGHAI, March 14, 1949—7 p. m.

[Received March 14—6:27 a. m.]

875. Jardine-Matheson⁹³ Shanghai received telegram March 11 from Tientsin agents not to despatch any steamers Taku Bar pending issuance new Communist shipping regulations due shortly. Their steamer had already left Hong Kong with Tientsin cargo aboard so was diverted Pusan. Will proceed Tientsin later, if possible. However, Butterfield and Swire Steamer *Hanyang* also with Hong Kong cargo expected arrive Taku about March 15. Butterfield and Swire state they have no previous Communist clearance but are hopeful discharge possible. American President Line will not send in another ship until Tientsin agent assures them arrangements load outward cargo completed.

Sent Department 875, repeated Nanking 520, Canton 156.

CABOT

611.9331/3-1549 : Telegram

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

PEIPING, March 15, 1949—2 p. m.

[Received March 16—8:28 p. m.]

415. ReDeptel 121, March 12. In view basic strength business position, [it is] believed direct approach re consular functions warranted as first step. Noting previous approach re Mukden (Contel 367, March 8⁹⁴) has already presumably cleared way somewhat, recommend new approach same lines be made re position our consular offices generally Communist areas. It could well be noted that Communists publicly advertised their desire that foreign business firms, missions and individuals, even Consulates, should carry on as usual instead of evacuating before Communist occupation, that foreign lives and property would be protected, that some foreigners left but many stayed, that Communists understood not opposed in principle to foreign contacts whether social or commercial, that position and functions consular officials are part of whole complex [of] official and commercial relationships which make requisite provision facilities for travel, banking, consular invoices, passports and visas, protection foreign lives and property. Re frequently orally asserted (but unpromulgated officially) policy "nonrecognition" consuls, there could be emphasized pointed

⁹³ British shipping firm.

⁹⁴ Vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

arguments Mukden case that US Govt is assured on basis international law [and] practice no question recognition involved. There could finally be requested restoration to American consular representative normal facilities for performance their recognized functions, facilities to include usual contacts with local authorities, confidential commercial telegrams, registration motor vehicles, travel both private and official personnel including couriers.

Believe presentation matter these lines would be most effectively done Peiping as site governmental authority more nearly central in character, but parallel approach in commercial center Tientsin would add weight. Also believe that *démarche* would be stronger if at least British⁹⁵ and probably other consuls would make parallel moves as in case call on mayor (Contel 322, February 28⁹⁶). French Consul⁹⁷ already has standing instruction make representations high Communist authority re communications, particularly for Mukden, Tientsin. Note Communist request Hong Kong-Shanghai Bank to act as finance agent (Contel 364 [264] March 15 to Nanking⁹⁸) offers reason discuss matter with British now. Opine this general procedure least complicated and least dangerous of any alternatives now offered and also logical as first step.

If this procedure not adopted, re Dept proposals suggest as second alternative direct approach Communists Peiping, Tientsin re both consular invoices and communications including confidential telegrams at such time as first exports shipments USA may be undertaken. This would effectively be done indirectly through shipping agents if direct approach undesired or infeasible. If Communists still prove obdurate, retributive action along lines suggested, even arranging block finance channels potential Communists imports would undoubtedly give force to argument. Communists would probably, I believe, consider this economic warfare as suggested third paragraph reftel.

Re questions penultimate substantive paragraph reftel (which Tientsin in better position answer than Peiping), note Communists economically weaker than outward appearances indicate and cannot forego commerce with outside world without grave consequences their regime. Although Communist regimes often follow policies to their economic detriment for political reasons, personal opinion is CCP⁹⁹ will be forced compromise under economic pressures. Political decisions this regard seemingly still hanging in balance with CCP estimate time left before third world war most determining factor.

⁹⁵ Acting Consul Martin P. Buxton.

⁹⁶ Vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter II.

⁹⁷ Michel Bréal.

⁹⁸ Not printed.

⁹⁹ Chinese Communist Party.

Developments Peiping, Tientsin areas so far seem to show definite wish at least obtain needed foreign goods whether in direct trade or via Shanghai. Goods are primary consideration. Believe at present stage thinking might even prefer obtain them under barter arrangement, it being evident they have still failed set up smoothly functioning customs and foreign exchange facilities. Latter presumably however regarded as necessary evil. Believe that even in such circumstances issue consular functions could probably be advantageously brought up directly now when CCP uncertain re future foreign trade but already feeling economic pinch and when also (1) coordination foreign interests in early stages development most readily achieved and (2) still uncertain whether necessary apply economic sanctions, which had better be avoided if possible achieve ends by other means.

Peiping issued since Communist occupation only one consular invoice February 8 covering 132 cases Chinese furniture and antiques. Believe advisable continue regular issuance if demanded since actual performance consular functions naturally tends strengthen *de facto* position consulates.

Tientsin by hand. To repeat Nanking, Shanghai, Hong Kong, Taipei.

CLUBB

693.0031/3-1649: Telegram

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

SHANGHAI, March 16, 1949—7 p. m.

[Received March 16—7:06 a. m.]

903. Consulate General doubts advisability withholding consular invoices prior inauguration North China export trade as device reopen confidential radio communications with Tientsin as suggested Deptel 470 to Shanghai¹ apparently as bluff or threat since earlier Consulate General study indicated several flaws (Deptel 470, March 12). Most export letters credit do not call for consular invoices for bank clearance, but if required banks will customarily waive upon amendment of letter credit on approval buyer and seller. Omission invoices from letter credit requirements due Chinese floor price requirements and risk falsification invoices. Shippers generally aware invoices not required for informal customs entry and that usual bond cost US \$5, if document unobtainable in 6 month. Moreover, Consulate General doubts if courts would sustain customs forfeit bonds for full value shipments on grounds such as Communist withheld telecommunications from American Consulates General Tientsin, Peiping.

¹ See footnote 91, p. 911.

Trends toward improved telecommunications and shipping services with north visible, altho cannot forecast when code traffic with Mukden, Tientsin resumable.

See ConGentel 875, March 14 re shipping Hong Kong-Taku Bar and 868, March 14 re North China customs.²

Consulate General Shanghai has certified several Tientsin invoices for goods shipped here prior Tientsin fall but none since and knows no valid grounds refusal certification here.

Irrespective merits invoice approach *per se*, its use and limited confidential telecommunications seems inadequate in view larger problem US consular rights and treatment personnel at Mukden and lesser degree Tientsin. Believe very dubious British cooperation obtainable in applying economic controls, much less suspension or limitation Hong Kong traffic with North China merely on question use codes but British might be receptive proposals concurrent action on broader issues.

Continued isolation Mukden staff and possible mistreatment personnel there sets most unfortunate precedent which cannot possibly be overlooked here, especially should Communist influence be extended Shanghai. Also press information re treatment Consul General Tientsin, for example re consular seals and possible lowering flag at Communist insistence, seems evident attempt humiliation. Further understand British, also French Mukden Consuls³ recently sent personal messages their Embassies Nanking, [re] obvious discrimination against Ward.⁴ Merchant approved above in draft.

Sent Department 903, repeated Nanking 533, Canton 166, Peiping 79, pouched Hong Kong 43.

CABOT

800.8890/3-1749: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, March 17, 1949—7 p. m.
[Received March 20—10: 16 p. m.]

140. British Butterfield and Swire SS *Hanyang* which arrived Taku March 14 received permission from local port authorities to come up Haiho River to Tientsin but on March 16 Communist military authorities refused allow vessel proceed flying British flag. As *Hanyang* unwilling accede condition no flag, she proceeding outside Taku Bar and there awaiting passengers and cargo. *Hanyang* which is proceed-

² Telegram No. 868 not printed; it reported reopening of the Chinwangtao customs (693.006/3-1449.)

³ Walter G. C. Graham and M. Giovangrandi.

⁴ Angus Ward, Consul General at Mukden. For correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists".

ing Hong Kong will be first vessel to take passengers from Tientsin since capture city. (Among passengers will be Miss Foss and Mrs. Adams of ConGen staff, and 3 Americans of local ECA⁵ office, Ivy, Wildner and Moore. All have received exit permits.) Permission not granted for export cargo.

Cargo will be confined to merchandise not destined for US or Europe in accordance understanding B and S with other members shipping line conference (Tientsin sub-bureau of Shanghai, New York and Transpacific Freight Bureau) not to bring ships to this area unless certain facilities guaranteed by authorities. Call of *Hanyang* is test case. If all goes well other members conference plan bring ships in. American Mail and American President lines have each one ship tentatively scheduled for call at Taku Bar end March.

Authorities have so far not issued comprehensive regulations covering shipping and call of each ship is subject of prolonged negotiations. Communists appear desirous of reviving trade but are suspicious of established foreign banking, trading and shipping organizations and seem to be endeavoring to bypass them by having recourse to small tramp steamers who trade on barter basis. Call of *Cloverlock* (our telegram 134, March 15⁶) and arrival at Tientsin from Hong Kong on March 14 of Panamanian SS *San Jacamino* reportedly under auspices Tientsin Board of Trade, Communist organ, are examples. Understand other small vessels have left Hong Kong bound for Tientsin; another Panamanian SS *Grand* due here tomorrow.

[SMYTH]

611.9331/3-1849: Telegram

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

NANKING, March 18, 1949—3 p. m.

[Received March 19—3:33 a. m.]

603. Access to code communication in exchange for invoice certification by ConGen Tientsin we consider too limited objective and furthermore might have undesirable result of focusing Communist suspicion on reasons behind our desire use codes. (ReDeptel 333, March 12⁷). We feel that so long as Communists refuse permit execution normal Consular functions including shipping services, use of codes and access to local authorities for purpose protection American interests, our Consular Officers should take position they have been incapacitated from performing usual services including those which

⁵ Economic Cooperation Administration.

⁶ Not printed.

⁷ See telegram No. 121 to the Consul General at Peiping, p. 911.

would facilitate trade between Communist-occupied China and US. American firms expressing desire trade with Communist areas or ships proceeding there should be warned that due to attitude Communist authorities they cannot expect usual assistance, protection given by Consular Officers. Opportunity should then be sought to bring home to Communists Peiping, Hong Kong, Tientsin, that while American firms have expressed interest in trade with Communist areas we have felt compelled warn them they cannot expect assistance and protection normally accorded them by US Consular Officers in other parts of the world, so long as Communists refuse permit consulates perform normal functions.

We consider refusal certifying invoices not as device but as matter of policy and precedent. Assuming Communist desire foreign exchange exports, certification invoices without Communist agreement to general performances Consular functions would amount to performing only those functions of benefit to Communists. Question will be much more important with Communist occupation Shanghai and essential set precedent now. If Communists to reap benefits foreign trade, must also assume responsibilities which include permitting representatives foreign governments deal with local authorities. Obviously Communists could bypass Tientsin Consulate by transshipping to US from other port but this would be expensive and inconvenient and would at least not be in position facilitating direct trade. British cooperation would of course greatly increase our leverage.

Position our Consulates only part of broader question American interests in Chinese [*China?*]. We agree to inadvisability at this stage creating impression US adopting pressure tactics, yet when Communists themselves resort to unwarranted pressure (as in case our Consulate's part in Mukden) failure our part to react other than verbally encourages Communists in their course. In view strong possibility increasing use by Communists of pressure to minimize American influence in China, US Government should carefully consider instruments available to us for opposing such pressure. Suggest consideration shipping and export controls this connection. Effort should be directed toward developing two-sided program. On one hand use every possible means convince Communists of advantages to them of continuing trade and cultural relations with US but on other hand demonstrate when necessary that discrimination against American interests will be met with concrete retaliatory measures.

Sent Department 603, repeated OffEmb [at] Canton 170, Shanghai 275, Hong Kong 17, Peiping 90, Tientsin 23.

STUART

611.9331/3-2149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, March 21, 1949—11 a. m.
[Received March 21—2:38 a. m.]

78. From Merchant. Dubious of effectiveness procedure suggested Deptel 121, March 12 to Peiping, repeated Taipei as 42, but in any event believe any measures this character should be directed to obtain not merely Consular right employ codes, but full measure respect our Consulates with right exercise unhindered all established functions. Isolation Mukden and evidence increasing restrictions Tientsin, Peiping certainly appear to justify firm US reaction. Understand ConGen Shanghai reply discusses technical difficulties.

Sent Department, repeated Nanking 70, Shanghai 71, Canton 4, Hong Kong and Peiping unnumbered. [Merchant.]

EDGAR

693.0031/3-2149 : Telegram

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

SHANGHAI, March 21, 1949—noon.
[Received March 21—12:51 a. m.]

948. British Ambassador⁸ informs me British cannot use noncertified consular invoices (reContel 5 [to] Nanking, 922 March 17, 7 p. m., to Department,⁹ 44 Hong Kong, 86 Peiping, 26 Tientsin) as means for putting pressure on Communists to deal with western consulates since British don't issue consular invoices. British are further studying question.

Sent Nanking 553, repeated Hong Kong 46, Department and Tientsin 29.

CABOT

693.003/3-2149 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, March 21, 1949.
[Received March 23—12:35 a. m.]

150. According *Chin Pu Jih Pao*, March 17, all agreement [*sic*] tariff rates contained in tariff agreements between China and other countries abolished by North China People's Government on commod-

⁸ Sir Ralph Stevenson.

⁹ Not printed.

ities entering or leaving Chinese Communist territory. Full translation new tariff regulations will follow in subsequent telegram.¹⁰

Sent Department; repeated Nanking 88, Shanghai 86.

SMYTH

611.9331/3-2549 : Telegram

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

SHANGHAI, March 25, 1949—5 p. m.

[Received March 25—5:16 a. m.]

1000. I am in hearty accord with all points made in Nanking's 603, March 18. However, I feel we should investigate further whether Communists would encounter insuperable difficulties in using Hong Kong as transshipment point in absence new Hong Kong trade controls which we have no reason anticipate. Also merely nominal penalty imposed for nonproduction consular invoice at US entry port might emasculate this weapon in large degree.

Sent Department, repeated Nanking 589, Canton 208.

CABOT

611.9331/3-2849 : Telegram

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

SHANGHAI, March 28, 1949—2 p. m.

[Received March 28—3:08 a. m.]

1010. For Treasury for Stuart¹¹ from Parker.¹² From Tientsin-Peiping area Communists are resuming export bristles, furs but by-passing consular functions. Some shipments direct Taku Bar to east coast ports, but others to Hong Kong for reshipment. Embassy and Consulate General here have queried me re customs procedure imports without certified invoices. Policy here based on using every means persuade Communists recognize our Consulate's functions and as second step continuation trade through established Communist ERC [*commercial*] channels rather than state trading organ.

Request your discuss with customs what penalty or delaying action they prepared take re these cargos. Recommend even if no direct penalties applicable, cargos be retained in bond on basis questioning invoice declaration quality value and particularly exchange rate applicable Communist currency.

Advise soonest as completely as possible.

¹⁰ No. 168, March 25, not printed.

¹¹ Arthur W. Stuart, Chief of the Far Eastern Division.

¹² Paul C. Parker, Acting Treasury Representative in China.

Also would appreciate information present thinking on imports US to Communist areas. Hydrocarbon oils,¹³ rubber, etc., now going forward without restriction from Hong Kong. Also information re applicability GATT¹⁴ and other preferential treatment Communist China areas. [Parker.]

CABOT

611.9331/3-2849: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, March 28, 1949.

[Received March 31—9:35 a. m.]

178. We have certified no invoices since Communist take-over January 15. First and only instance of request for certification occurred March 26 when set invoices covering large rug shipment on SS *China Victory* presented by Chinese firm (see ourtel 179¹⁵ re *China Victory* cargo). Applicant informed today that Consulate General in no position for present to act on application for certification as we not extended normal facilities. We pointed out this not refusal to certify; that since authorities did not permit use codes, our mail not being delivered and we had no courier service, we could not operate without ready access to pertinent instructions on invoicing.

From views expressed in Deptel 55, March 16[12],¹⁶ and Embtel 23, March 19[18]¹⁷ (both just received), it seems unfeasible to instruct Hong Kong, Shanghai and other offices to refuse certify invoices on merchandise from Communist areas. This is crux of matter, or if certification can be accomplished elsewhere we see no way consular certification can be used by Consulates in Communist areas as device to obtain normal facilities and reasonable treatment. With Hong Kong and other consular offices available for invoice certification, result of our refusal to certify invoices would be to give British and other coastal vessels much of cargo business which normally goes on American vessels from Taku Bar direct to US (there are no American vessels operating in coastal trade), this Consulate General would also lose prestige with local authorities and businessmen if we refused to certify and could be bypassed by going to consular offices in Hong

¹³ For correspondence on American trade policy regarding oil, see pp. 1002 ff.

¹⁴ General Agreement on Tariffs and Trade, signed at Geneva, October 30, 1947, Department of State, Treaties and Other International Acts Series No. 1700, or 61 Stat. (pts. 5 and 6). See also Department of State *Bulletin*, November 30, 1947, p. 1042.

¹⁵ March 28, not printed; it furnished details of cargo scheduled to leave Tientsin for American West Coast ports on March 29; about 90% of 1087 tons to be shipped comprised rugs and walnut meats.

¹⁶ See telegram No. 121 to the Consul General at Peiping, p. 911.

¹⁷ Same as telegram No. 603 from Nanking, p. 917.

Kong or elsewhere. We will, however, postpone certification of invoices until Department has considered above views and those which may be expressed by other offices and has advised us which course of action it desires we follow.

As previously reported, indications are that Communists are anxious to revive foreign trade on which livelihood of at least 50 percent of Tientsin population depends.

In ourtel 132, March 10 we reported Tientsin American Chamber Commerce strongly endorsed our recommendations re invoice control. However, if certification can be obtained in Hong Kong or elsewhere, then exporters obviously would not wish this office to refuse certification.

To date we are without effective means of pressing local authorities for facilities usually accorded Consulates.

Sent to Department as 178, Department pass Nanking as 107, Shanghai as 105, Hong Kong and Peiping as 66.

[SMYTH]

693.0031/3-2949 : Telegram

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

SHANGHAI, March 29, 1949—3 p. m.

[Received March 29—5 : 58 a. m.]

1024. For Sprouse,¹⁸ Merrill Gay.¹⁹ General impression recent messages Mo Chi [*North China*] confirmed information Hong Kong re Communist progress setting up facilities handling foreign trade [and] indicate their distinct preferences barter [and] utilization Hong Kong as principal trading center. These developments give special point inquiries made Mukden November 10-15 re their use Hong Kong trading purposes which Mukden implied primary concern British not [*but*] US view possibly may have conveyed impression Mayor Mukden we might acquiesce such arrangements or be indifferent even though some commodities Manchurian origin destined USA or Communists seek purchase US goods in Hong Kong including critical materials as hydro carbon oils.

While arrangements under way direct trade American ships calling Taku Bar for both import, export cargo evident preference Communists trade via Hong Kong on barter basis create decided disadvantages US banks, traders North China which Communists evidently seek bypass. This attitude further tends discourage hopes gaining recognition consular offices and weakens position our business

¹⁸ Philip D. Sprouse, Chief of the Division of Chinese Affairs.

¹⁹ Assistant Chief of the Division of Commercial Policy.

and cultural interests still seeking function North China. Such development the more unfortunate as these establishments now afford principal bases continuance mutually beneficial contacts with Communist areas with potentialities achieving eventual divergence North China Communists at least our side fence.

Consider imperative Communists be made understand immediately their present attitudes and policies toward American Consul Generals Peiping, Tientsin, and particularly Mukden cannot be pursued indefinitely nor with impunity and secondarily their conduct trade USA must conform international requirements and procedures, not theirs. Longer they can pursue present course of action (thus far without even our public remonstrance), the more difficult it will become for the realization reciprocal obligations which must become ultimate *sine qua non* our relations with them.

With Mukden already isolated 5 months and view continued Communist "non-recognition" official status Consul Generals North China, strongly endorse approaches lines Peiping's 415, March 16 [15], reinforced [by] adequate publicity at home.

Further means achieving strictly limited objections [*objectives*,] obtain access principal Communist officials and other usual facilities required performances on [*Consular*] functions Consul General suggests immediate application "as temporary measure" enforcement export licensing all hydro carbon oils requiring reference all license applications shipments Communist areas whether directed via Hong Kong to American Consuls concerned for recommendations adequacy local supply, end-use control and local political considerations (mytel 982, March 24²⁰). Understand similar procedure previously used Bulgaria. If public notice required, this obvious function Department Commerce should be disassociated far possible any possible public comment North China problems by Department.

Consul[ate] believes public Department comment Consul[ar] status Mukden, North China now called for, making casual reference calls by American ships Taku Bar, adding incidental comment "we take it North China goods destined USA will be properly invoiced ConGens as heretofore and otherwise shipments handled conformity established international trade procedures.["]

Also suggest Clubb be authorized hint Communist authorities as expression personal views their apparent by-passing foreign banks (including Chase Bank, Tientsin) evasion normal foreign trade financing procedures and efforts eliminate American trade interests North China being watched and that while we appreciate convenience Hong Kong transshipment point its continued use Communist trad-

²⁰ Post, p. 1002.

ing base disadvantage US trade interests may lead adoption penalties which we prefer avoid.

Undesirability US Hong Kong trading base illustrated Hong Kong despatch 60, March 8²² re shipment Chefoo Italian SS *Cyclops* 2500 drums gas, 100 drums transformer turbine oil, 448 bales smoked rubber sheets, other strategic materials.

British lack Consular invoice requirements and Hong Kong authorities evidently reluctant this time resort measures check development barter trade there which obviously their immediate interests promote. Certainly cannot ask British cooperation Hong Kong unless prepared take direct action ourselves by enforcement US export controls or otherwise. Believe Hong Kong authorities willing control exports hydro carbon oils for Communist territories unless licensed and oil firms also cooperative if approached. More strenuous measures as closing Hong Kong to ships trading Communist areas used as club now premature and disadvantageous respect trade "North Korea" where SCAP²³ acquiring soybeans and other bean products. Control Hong Kong trade with "North Korea" (convenient euphemism Manchuria evade Hong Kong commitments curb unlicensed trade China) presents exceptional difficulties Consul not prepared to discuss this time.

On control exports North China [to] USA, Consul General considers invoice approach (Contels 903 and 922, March 16 and 17²⁴) ineffective unless supported by other means. Prospects effective results suggestion Hong Kong telegram 112, March 24²² re use quarantine documents no more encouraging. Only minor items, woolen floor coverings, straw braids, curios, touchable [by] withdrawal preferential US import duties accorded reciprocal trade agreement and GATT possibly now justified Communist renovation customs tariff for North China (Tientsin 86, March 23²⁵). Major commodities, raw furs and bristles, duty free or take specific rates directly vulnerable tariff changes absence evidence dumping, unfair trade practices, meaning tariff act. Understand [from] Treasury Attaché *ad hoc* freezing unusable absence general freezing controls application, also seem premature but may deserve early preliminary exploration Washington and British event results our direct efforts North China induce Communists adopt reasonable attitude American/British interests prove progressively unsatisfactory which we fear. Freezing controls very cumbersome, probably more disadvantageous Allied firms than Communists [because there are?] few assets we could freeze.

²² Not printed.

²³ Supreme Commander, Allied Powers in Japan (MacArthur).

²⁴ Telegram No. 922, not printed.

²⁵ Same as telegram No. 150, March 21, from Tientsin, p. 919.

Suggest immediate problem partially solved if adequate means and grounds withholding or delaying such entry barter shipments via Hong Kong could be found (mytel 1010, March 28), possibly placing shipments in bond pending delivery shippers' affidavits explain origins cargo obtained. Suggest this aspect problem be taken up promptly Treasury and Communists. In event Clubb authorized discuss problems along lines suggested this telegram, he should in our view be instructed mention we will not interfere direct mutually advantageous two-way trade via Taku Bar or Chinwangtao provided normal procedures followed including invoice requirements or with same proviso as regards normal transshipment traffic via Hong Kong but we do object disregard normal control functions both connection trade and other matters and we do not approve trade which ignores normal international trade procedures.

Merchant concurs.

Department pass Peiping as 105 and Tientsin unnumbered. Sent Department 1024, repeated Embassy Canton 216, pouched Nanking 600, Hong Kong 52.

CABOT

693.0031/3-3049 : Telegram

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

SHANGHAI, March 30, 1949—5 p. m.

[Received March 30—6:06 a. m.]

1040. Delegation of Chinese shipowners association returned from Nanking March 26 after discussing with Acting President,²⁶ Prime Minister,²⁷ Minister of Communications,²⁸ Minister Economic Affairs²⁹ and other officials revival Chinese shipping to North China Communist ports. Officials including Minister for National Defense³⁰ agreed permit ships sail after operational details and barter arrangements have been worked out. Central Bank [at] Shanghai, in cooperation with Central Trust, is now planning initial shipment for Tientsin of 664 tons sugar to be exchanged for 1500 tons soda ash. Central Bank will arrange local clearances from Customs Bureau [of] Shipping and Navigation and Shanghai Woosung Garrison. Ship will be nominated by shipowners association as soon arrangements completed. Surreptitious junk traffic is believed underway between Communist and National ports. Local Customs official states despatches from Tsingtao

²⁶ Marshal Li Tsung-jen.

²⁷ General Ho Ying-chin.

²⁸ Tuan Mu-chieh, also known as Tuan Mu-kai.

²⁹ Sun Yueh-chi.

³⁰ General Hsu Yung-chang.

indicate junks for northern ports have been cleared from Tsingtao by local military without Customs knowledge. Same procedure by military certain other ports probably including some on south shore lower Yangtze River. Local press today published account of junk that sailed from Tientsin to Ningpo with cargo and passengers.

CABOT

611.9331/4-149: Circular telegram

The Secretary of State to Certain Diplomatic and Consular Officers in China^{31a}

WASHINGTON, April 1, 1949—3 a. m.

Agreed here that refusal certify invoices on grounds ConGen Tientsin unable use code communications not feasible as hidden leverage and would be recognized readily as restrictive economic measure. (Deptel 121³² to Peiping for Tientsin as 55 March 12). Dept believes attempt regularize Consular functions and obtain Commie recognition official consular status by threat or application economic pressure through refusal invoice certification or other direct and open restrictions trade tactically unwise at this time. Practical obstacles application such measures probably would seriously impair their effectiveness, benefit British and/or other third nationals at expense US business, and elicit Commie retaliation leading economic warfare seriously prejudicial establishment consular functions and trade relations.

Efforts obtain Commie recognition official consular status inappropriate since this would have overtone *de jure* relations in which we unable reciprocate. However, consular performance normal functions, including maintenance confidential radio, separate matter for which there is ample historical precedent without prejudice *de jure* relations. Commie accession such functions may be induced gradually by realization their contribution mutually profitable economic intercourse, and consular position should be strengthened by usage such functions where possible. Dept agrees direct approach Commies Peiping should be taken in discretion ConGen along lines discussed first alternative Peiping's 415 March 15. This could be supplemented by ConGen Tientsin as proposed Embtel 669 March 30³³ sent Peiping 103, as follows:

"You may suggest in your opinion businessmen in USA possibly interested in revival trade Manchuria [and] North China with degree

^{31a} Sent to Peiping, Taipei, Canton, Hong Kong, Shanghai, Nanking, and Peiping for Tientsin.

³² *Ante*, p. 911.

³³ Not printed.

this interest depending on treatment accorded them and opportunities afforded US business on direct two-way basis, with reestablishment branch offices, facilities for travel, communications and exchange necessary conditions.

You may also say transmission Department Commerce for information US business any specific trade opportunities genuine commercial nature one of normal consular functions you seek to continue to perform, if possible.

You should disclaim knowledge present US Govt economic policy or attitudes toward trading Communist areas but indicate usual treatment US Consular Officers prerequisite resumption normal trading relations with USA, which unless accorded promptly may complicate solution."

Dept suggests rephrasing last sentence above to read ". . .³⁴ usual treatment US and other foreign consular officers important aspect resumption normal foreign trading relations". ConGen Peiping authorized seek coordinated British and French approach. Dept will make similar efforts here and Nanking should undertake parallel discussions, but ConGen Peiping should proceed in his discretion if cooperation foreign colleagues not forthcoming.

ConGens Peiping and Tientsin should certify invoices on request. This supercedes instructions Deptel 121 to Peiping for Tientsin as 55 March 12. Dept endeavoring ascertain [from] Treasury if Customs will require severe penalty bond for entry goods shipped directly from Tientsin without consular invoice provided ConGen Tientsin was willing certify in accordance regulations. Tientsin should identify large rug shipment SS *China Victory* on which invoice certification was not made (Tientsin's 178 and 179 March 28³⁵).

Every effort should be made consistent regulations to inconvenience transshipments via Shanghai and Hong Kong as stimulus direct trade in interest strengthening consular functions Tientsin. ConGens Shanghai and Hong Kong should be strict as possible re invoice certification procedures on goods appearing originate Tientsin. To assist in spotting such goods, ConGen Tientsin lists principal exports as bristles, woolen rugs and carpets, furs, raw wool, straw braids, walnut meats and egg products. Dept exploring with Treasury what delaying action, if any, by Customs re Tientsin transshipped cargoes might be taken in conformance regulations (Shanghai's 1010 Mar 28).

ACHESON

³⁴ Omission indicated in the source text.

³⁵ Latter not printed; but see footnote 15 to telegram No. 178, March 28, from the Consul General at Tientsin, p. 921.

893.0031/4-549 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, April 5, 1949—4 p. m.
[Received April 7—12:51 p. m.]

211. Thus far Communists have not promulgated any law for regulations directly discriminatory to resident foreign firms or foreign businessmen. However, many Tientsin foreign traders are growing more pessimistic over future chances of doing business here and believe their days in North China numbered. There seems little doubt that Communist desire trade with foreign countries and will make efforts to revive full scale exports and imports but, in doing so, local businessmen expect Communists will show increasing preference for and eventually deal at this exclusively through government organizations and private Chinese traders. This view stems from Communist anti-foreign propaganda plus a general apathy Communists have shown in dealing with individual technical problems of reconstituting trade, etc., presented to them by foreign businessmen, while Chinese businessmen, on other hand, seem to have had warmer reception. Also, Chinese businessmen may travel freely in Communist territory while resident foreign businessmen required obtain permits which are issued slowly. In law enforcement, Communists seem to be more severe with foreigners than with Chinese.

Foreign businessmen felt that Communists may perhaps never pass any laws or regulations directly against them but passive resistance to doing business with and through them can accomplish same purpose.

Local press has consistently hammered at the "losses" to China under former system or [of?] "colonial" and "imperialistic" trading and that trade must be bent to needs of country as whole rather than relatively small Tientsin business community.

In our telegram 130, March 9[10]³⁶ (sent from Peiping as 400 March 13[10]) we reported that consensus of opinion of number of Americans and other foreigners here was that Chinese Communists would prove to be more Chinese than Communists. Opinion on this point has changed considerably during past month and majority of foreign businessmen now either (1) feel Communists will prove to be more Communist than Chinese or (2) have not yet formed definite opinion although tending to be more pessimistic than previously. The American businessman mentioned in reftel continues to feel Communists will prove to be more Chinese than Communist, but he is in minority. While larger foreign companies (mostly British and American) do not yet talk of folding up, smaller foreign businessmen are reaching point where they cannot afford to hold on longer. Over 100

³⁶ Vol. VIII, "Political and military situation in China", chapter II.

Jewish shopkeepers of Soviet nationality are planning to leave for Palestine in near future.

Sent Department as 211; repeated Nanking as 133, Shanghai as 134.

SMYTH

611.9331/4-549: Telegram

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

SHANGHAI, April 5, 1949—9 p. m.

[Received April 5—12:23 a. m.]

1084. For Sprouse, Merrill Gay. ConGen feels, and Embassy Nanking concurs, ConGens Peiping, Tientsin should make known willingness perform all usual consular functions. Mytel April 1,³⁷ Tientsin 179 to Department³⁸ listing cargo SS *China Victory* adding invoices not certified, Tientsin's unnumbered March 31, 4 p. m., via Department³⁹ re invoice and shipping, Deptel 121 to Peiping for Tientsin as 55, March 12, and Department Cirtel April 1, 3 p. m. [*a. m.*] However, ConGen Shanghai will refuse certify invoices for cargo shipped abroad direct from Tientsin, and will place under greater surveillance cargo obviously North China origin shipped from Shanghai for which invoices presented here.

Hinke⁴⁰ and Fleming⁴¹ suggest Department immediately authorize ConGens Shanghai and Hong Kong request all American ships calling Taku Bar, especially APL, US Lines and American Mail Line, require as condition [of] call execution marine notes protest and physical deposit ships' papers at ConGen or, if ships' time too short, require consular call ship board perform these services.

Ships' agents customarily supply, frequently as per ships' departure, details ships' daily journal Customs clearance AmConGen Tientsin for all American ships calling Taku Bar without physical deposit ships papers due 35 miles distance travel inconvenience.

Believe procedure warranted [by] FS⁴² regulations, unusual conditions Tientsin, helpful establish consular authority over American ships and facilitate receipt, despatch consular mails.

Suggest AmConGen Tientsin comment Shanghai and Department direct feasibility this procedure as phase general efforts establish

³⁷ No. 1053, not printed; it suggested that the Consulate General at Tientsin notify local shippers it would certify consular invoices covering direct shipments from Tientsin (143.4/4-149).

³⁸ Not printed; but see footnote 15 to telegram No. 178, March 28, from the Consul General at Tientsin, p. 921.

³⁹ This repeated telegram No. 178, March 28, from the Consul General at Tientsin, p. 921.

⁴⁰ Frederick W. Hinke, Consul and Commercial Attaché at Shanghai.

⁴¹ Andrew C. Fleming, Consular Attaché at Shanghai.

⁴² Foreign Service.

ConGen Tientsin normal functioning.

Peiping please pass Tientsin.

Sent Department, pouched Nanking 633, passed Peiping and Hong Kong.

CABOT

693.0081/3-2949 : Telegram

*The Secretary of State to the Consul General at Peiping (Clubb)*⁴³

WASHINGTON, April 7, 1949—7 p. m.

189. Suggestions contained Shanghai's 1024 Mar 29 to Dept relayed Peiping as Shanghai's 105 subject instructions Deptcirtel Apr 1 with particular reference paragraphs 3 and 7 Shanghai's 1024. Implicit or explicit threats unwise in absence decision actually to carry them out if bluff called. Shanghai's reftel not relayed Tientsin in interest code economy.

ACHESON

611.9331/4-1149 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, April 11, 1949—2 p. m.

[Received April 13—5 : 03 a. m.]

231. Reference Shanghai 1084, April 5. We will explore possibility of obtaining official permission to carry out procedures suggested by Shanghai and report developments. Meanwhile we feel that American ships calling Taku Bar should not be required deposit ships' papers at Consul General Tientsin or if time short require Consular calls at ship. As this has not been required in past and very doubtful whether Communists at present would permit either ships' officers proceed Tientsin or Consular calls on vessel, we feel that only result of such requirement would be to prevent calls of American vessels at Taku Bar, thereby giving all trade to foreign ships.

Repeated Nanking 147, Shanghai 152, Peiping 97 and Hong Kong.

[SMYTH]

611.9331/3-2849 : Telegram

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

WASHINGTON, April 12, 1949—3 p. m.

641. For Parker from Treas. At present moment no special action re urtel Shanghai 1010⁴⁴ contemplated by Treas. Action re Communist

⁴³ Repeated as No. 610 to the Consul General at Shanghai.

⁴⁴ March 28, 2 p. m., p. 920.

area exports still being explored State Dept. (See Dept Cirtel April 1).

Customs advises US importers required by law produce consular certified invoice for all imports valued US\$100 or more with certain exceptions or post bond for production such certification within 6 months from date entry. Bond set in amount equal value importation plus amount duty if any.

Also advised that in transshipment cases, e.g., Tientsin [to] Hong Kong [to] US route provision exists whereby consular certification given Hong Kong may be refused by Customs if it determines Tientsin goods actually destined US not Hong Kong. In event refusal accept Hong Kong certification, bond must be posted.

Available info policy US exports China strategic items on positive list ⁴⁵ controlled in manner consistent US foreign policy and national security. Note export controls applicable strategic items originating US not offshore shipments re which see Deptel 573, Apr 1.⁴⁶

GATT treatment problems now under study. [Treasury.]

ACHESON

611.9331/4-1349 : Telegram

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

SHANGHAI, April 13, 1949—4 p. m.

[Received April 13—8:52 a. m.]

1182. Department in its discretion please pass Peiping.

Developing picture North China trade suggests we must consider at early date point at which we must take specific measures protect American business and commercial interests as well as Consular prerogatives if we are ever to do so.

Recognizing fully logic Department's position that we do not want to get into full scale economic warfare with Chinese Communists unless we are forced to, we must nevertheless decide whether too soft attitude may not invite or encourage Communists take measures against American business and trade which firmer attitude would block. Resumption trade with Tientsin on individual basis especially via Hong Kong as we see it greatly weakened position western business communities in dealing with Chinese Communists and has doubtless suggested to them they can take measures impunity against western business and officials (e.g., Yee Tsoong, Kailan Mines, and American Consul General [at] Mukden). While we must be careful not to over-play our hand (for example, importations Russian oil reported

⁴⁵ The 1A list consisted of items of direct military utility; the 1B list, of capital goods of multi-purpose character. Licenses issued by the Department of Commerce were required for exports of these items to Europe.

⁴⁶ *Post*, p. 1002.

in Tientsin's 201, April 6 [4], 9 a. m. [2 p. m.]⁴⁷ indicate withholding petroleum products is by no means as strong a weapon as we had thought), we must remember we do have weapons particularly at present time which we have not yet given any indication of using. Communists may well assume they can play individual firms and nations against each other. Since entire situation may be aggravated when Shanghai comes under Communist control, some specific plan (for example, that recommended in mytel 390, February 4, 8 p. m.) seems desirable.

It would be very helpful to us to be given further indications lines Department's thinking regarding weapons at our [disposal if?] present attitude passivity proves ineffective meeting later developments. We feel our arsenal should be examined to determine what weapons additional to export controls might prove effective. Is Department exploring feasibility import controls, freezing orders? Has Treasury been consulted regarding possibilities substantial penalties for non-production [of] Consular invoices? We are not seeking decision at this time—merely indications as to lines thinking in Washington without final commitments.

We must specifically consider importance to US of protecting US citizens, American property, American trade and American officials against varying pressures to which they may be subjected. We should I feel study question indirect pressures which would in effect result confiscation American property and also question whether we should seek in any way oppose Communist trade monopolies which would clearly be harmful our trading interests. We appreciate Dept has already given very careful consideration to question import and export measures which might be used as weapons against Chinese Communists and that discussions have been held with British. We have nevertheless not been informed Department's views regarding what weapons if any might prove effective and how far British and we are prepared to act in cooperation. We do not know whether American and British companies operating outside of respective jurisdictions (e.g., deriving oil supplies from Middle East) can be persuaded or coerced into cooperation.

Should pessimistic views as to Communist intent take over KMA or Yee Tsoong NC⁴⁸ properties prove correct as feared by their Tientsin managers, British attitude toward whole NC problem might be profoundly modified including their acquiescence in use Hong Kong as Communist trading center. One British businessman explained British

⁴⁷ *Post*, p. 1003.

⁴⁸ North China.

attitude regarding trading with Communists by saying they must stay with local ship even if it sinks as they have no other place to go and must appear cheerful in sheer self-defense. British officials and businessmen seem increasingly pessimistic regarding situation.

Consul General of course realizes use of any weapons at this time may be premature and/or dangerous. Nevertheless Communist acts suggest we must decide immediately whether we are to make stand and if so on what line since pattern is clearly now being set.

Repeated Nanking 677, OffEmb Canton 260, pouched Taipei 61.

CABOT

693.003/4-1549 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, April 15, 1949—10 a. m.

[Received April 16—11: 14 p. m.]

242. In view abrogation of agreement tariff rates by People's Government (reported ourtel to Department 150, March 21), we would appreciate being informed by telegraph if Tariff Commission and US Customs intend placing Communist North China exports in different category vis-à-vis South China exports for purposes duty treatment.

Sent Department; repeated Nanking 158, Shanghai 164, Peiping 104, Hong Kong.

SMYTH

693.119/4-2549 : Telegram

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

SHANGHAI, April 25, 1949—5 p. m.

[Received April 26—1: 05 p. m.]

1338. Inform Commerce. Re ConGentel 1153, April 11.⁴⁹ In view war developments,⁵⁰ Consul General suggests immediate withholding all shipments positive list items destined Yangtze Valley ports irrespective licensing (reDeptels 559, March 30 and 634, April 11⁵¹) pending Consul General's recommendations after clarification situation.

Sent Department 1338, repeated Nanking 776, Canton 324.

CABOT

⁴⁹ Not printed.

⁵⁰ Chinese Communists occupied Nanking the previous day.

⁵¹ Neither printed; they reported on specific export licenses validated and withheld by the Department of Commerce.

693.0031/4-2649 : Telegram

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

SHANGHAI, April 26, 1949—7 p. m.

[Received April 27—6:39 a. m.]

1379. Soviets evidently making strenuous effort partially fill Commie needs North China for petrol and motor transport, Tientsin's 256, April 22[19], 6 a. m. [5 p. m.], to Department,⁵² for apparent purposes strengthen economic ties, support propaganda lines, make possible independence French [from] capitalist USA and British, adopt closer economic alignment with USSR and promotion state trading procedures most advantageous to Commies and USSR.

Sent Department 1379, repeated Nanking 794, Canton 342.

CABOT

611.9331/4-549 : Telegram

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

WASHINGTON, April 28, 1949—10 a. m.

779. Request ConGen's views re feasibility action suggested ConGentel 1084, April 5, in light Tientsin's 231, Apr 11 rptd Shanghai 152.

ACHESON

611.9331/4-2949 : Telegram

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

CANTON, April 29, 1949—10 a. m.

[Received May 1—12:11 a. m.]

Cantel 296. For US approach Communists with statement no intention intervene civil war and expressing willingness enter trade relations with Communists, as suggested Shanghai's 1389, April 27,⁵³ repeated Nanking 798, Canton 346, would seem mistaken tactics. In present situation any conciliatory move on our part would be regarded by Communists as either trap or as indication grave weakness. If former, it would subject us to embarrassment having overture rejected. If latter, we should have to deal with them on terms they impose, which can scarcely be less than humiliating.

⁵² Not printed; it reported certain trade transactions between Chinese Communists and the Soviet Union (693.0031/4-1949).

⁵³ *Post*, p. 1251.

Fact of matter is that Communists need American commodities and this need is our principal political weapon in eastern Asia. We should, then, employ it only under conditions our own choosing and for attainment ends of paramount importance. Thus, we feel that request, or even indication desire, for trade should come from Communists so that we will be in position to extract minimum *quid pro quo*.

I am equally of belief that statement to effect we have no intention intervention in civil war would serve no useful purpose at this time. Our position on intervention has been made abundantly clear in past, and Department's most recent statements on China further clarify issue. Repetition at present juncture would attract little or no attention if made in general way, and, if addressed specifically to Communists, might well be seized on by them as pretext exorbitant demands on military aid, position of ECA ⁵⁴ and similiar subjects, to which we could deliver no answer satisfactory to them.

Granted treatment our consular officers Communist areas leaves much to be desired and that situation Mukden should be protested fullest and remedied earliest, I think we have much to gain and little to lose by sitting it out little longer. I envisage Embassy Nanking will be ignored as such even more than has been case consular offices and that we will inevitably be led withdraw all personnel except those in consular or administrative capacities. Granting that Mukden is exception because of physical hardships of prolonged incarceration of personnel, I feel that threat of withdrawal other consular personnel would meet with ready acquiescence from Communists who seem to have established one way street for foreigners out of their areas with no way back. Fact that Peiping is still on air and that communications have been reestablished Tientsin seem encouraging. It may be that Communists are learning, as their contacts with foreigners increase, and that they may come of themselves to realization [of] need for more recognition international comity and useful functions performed by consular offices. At present time, there does not exist, in reality, any Communist government of China. It may well be that when such government is constituted, following convening of PCC,⁵⁵ that there will come about change for better in attitude toward foreign diplomatic and consular establishments.

In conclusion, I believe course suggested in Shanghai's 1389 offers little or no guarantee ameliorating present disabilities our consulates and Embassy. Also, such course would prejudice our future bargaining position at time when much larger issues may well be at stake.

⁵⁴ For correspondence on this subject, see pp. 472 ff., *passim*.

⁵⁵ Political Consultative Conference.

For this reason, and because of fact Communists have yet [to] form government capable development policy [respecting] treatment foreign Embassies and Consulates, I believe that for time being other means should be devised and used to attain ends we desire in this field.

Sent Department, repeated Nanking 233, Shanghai 186.

CLARK

693.119/4-2549 : Telegram

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

WASHINGTON, May 3, 1949—7 p. m.

841. [For] Cabot, Merchant and Clark. Following responsive urtels 1153 Apr 11,⁵⁶ 1182 Apr 13, 1338 Apr 25, 1388⁵⁷ and 1389 Apr 27:⁵⁸ Dept and Commerce prepared announce R procedure⁵⁹ China, Hong Kong, Macao and Korea but Dept reluctant take action prior Brit assurances cooperation for which we have been pressing.⁶⁰ Realize announcement controls might have salutary effect Chi Commie actions, but consider this wld backfire if they became aware US controls could be subverted via Brit channels. Having approached Brit re joint policy, possibility their full cooperation might be jeopardized if US were take unilateral action.

Short of R procedure in force with full Brit cooperation, US Govt has no strong economic weapons that cld be placed ConGen's hands. Withholding positive list licenses wld have only marginal effect. No legal basis obstruct imports other than by refusal ConGens (including ConGen Hong Kong) certify invoices. This already considered and rejected. US customs will require full value bond for entry China imports without consular invoices but this normal procedure. Dept considering with Treas feasibility and desirability various measures control Chi funds in US.⁶¹ Tentative Dept view, however, is that only practicable measure consistent present policy is protection US accts ChiGovt agencies by SecState certification under Fed Reserve Act Sec 25 (b)⁶² of reps ChiGovt authorized operate such accts.

Re export controls, Dept believes it wld be tactically unwise threaten severe econ restrictions ordinary Chi trade unless we were in position to create serious econ difficulties Chi Commies by concerted internatl

⁵⁶ Not printed.

⁵⁷ *Post*, p. 1008.

⁵⁸ *Post*, p. 1251.

⁵⁹ Required licenses for all exports to Europe. The 1A and 1B lists were the core of the procedure.

⁶⁰ For correspondence on this subject, see pp. 817 ff., *passim*.

⁶¹ For correspondence on this subject, see pp. 729 ff., *passim*.

⁶² Federal Reserve Act approved December 23, 1913; 38 Stat. 251. Sec. 25 (b); procedure was established under P.L. 31, approved April 7, 1941; 55 Stat. 131.

action and fully intended to carry through. Basic decisions such action are of foreign policy character to be made by Dept and cannot be delegated field although Dept does and will consider fully recommendations from field. Present policy outlined NSC 41⁶³ specifies resort econ warfare only if alternative course has clearly failed, and envisages consequences moderate trade policy wld, in any case, be discernible only over time. Abandonment this policy to be justified only on grounds overriding strategic considerations which by clear inference exclude consequences to private foreign interests of Chi Commie trade monopolies and other econ policies within Commie prerogative which circumscribe foreign business.

Despite foregoing there are important indirect leverages that can be brought to bear within context this policy in support private interests and consular functions. Knowledge R procedure *per se* shld have desirable conditioning effect provided its announcement and initial administration properly handled so as not to indicate immediate economic warfare. End-use controls under R procedure shld be exercised in large degree thru consulates and may bring Commies to respect their status. Licenses for exports subject to quantitative restrictions can be granted with first priority to applicants dealing with established and more reliable importers. (This procedure shld not be explicitly conveyed Commies, but might be implied directly and wld become apparent to them in due course.) Most important commodity to Commies is petroleum, most Chi imports of which not subj US export controls. Petroleum import limitation⁶⁴ therefore dependent voluntary action foreign companies which have indicated desire cooperate restricting stocks minimum civilian requirements. However, they feel understandable apprehension re consequences their interests extreme curtailment deliveries and Dept could not expect them agree invoke sanctions for benefit all American official and private interests until US Govt prepared curtail entire scope diverse US exports to same end. Companies shld, of course, be encouraged attempt maintain distributing position China by continuing sales on restricted basis sufficient to keep Commies coming back for more, and might be expected voluntarily withhold deliveries if Commies were to violate their interests. In view unknown capacity USSR supply bed rock Chi requirements POL⁶⁵ and other imports, together with possibility necessary China imports other non-US sources, oil companies and US Govt shld proceed cautiously in penalizing ordinary trade, short of overriding strategic justification therefor.

⁶³ For this National Security Council document of February 28, see p. 826.

⁶⁴ For correspondence on this subject, see pp. 1002 ff., *passim*.

⁶⁵ Petroleum, oil, lubricants.

It can be expected that political hostility, attempt monopolize trade, calculated indirect pressure foreign business and uncertainty economic policies and procedures will characterize Chi Commie actions for immediate future. Assumption responsibility administration large portion China including more modern sectors economy shld result some adjustment reality, as in recently reported modification treatment intended Kailan mines. Such adjustments cannot be forced by open foreign pressure without grave risk extreme retaliation. We can afford await developments on basis present policy lines, reserving extreme measures to combat serious derogation vital US interest. Mukden is only instance bordering such contingency thus far, but for time being believe this shld be dealt with as special case and on other grounds.

ACHESON

893.119/5-549 : Telegram

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

SHANGHAI, May 5, 1949—6 p. m.

[Received May 5—3:49 p. m.]

1522. Under circumstances set forth Deptel 841, May 3, we in entire accord Department's position which closely parallels our own thinking here. We appreciate that no effective economic controls can be established without at least British concurrence, and British, because of heavy investments and commercial interests in China, for present do not want make any commitment take any drastic action even in event serious injury foreign commercial interests.

Consulate General fully agrees we should make no threat or any action unless we are prepared to carry it out and believe it will be effective. Consulate General appreciates Department must make decisions re any action taken and that field can only recommend (see ConGen telegram 1388, April 27, 10 a. m.⁶⁶). As Consulate General previously indicated, it hopes moderate trade policy will relax present tension and favors conciliatory approach. We do feel, however, Communists' immediate needs on taking Shanghai will augment their apprehensions possible adverse action on our part and therefore force of any representations we may make. Institution R procedure in conjunction similar move by British coupled with willingness trade with Communists as long as they act in any reasonable manner should, we believe, produce results.

⁶⁶ *Post*, p. 1008.

Assuming British cooperation in R procedure, method public presentation and timing both important. If R procedure imposed without explanation we believe Communists might interpret as initiation economic warfare by "imperialist capitalism" and so treat in propaganda. If explanations deemed appropriate, we might explain mere desire obtain information re nature trade and identity traders during period political uncertainty. We realized Department might have no effective means controlling oil exports from Middle East and appreciate this weakens our position. We feel nevertheless mere fact Communist dependence foreign oil imports will be sobering factor, especially since maximum 30-day stock they will find here provides dangerously thin margin. As for pressure achieve our objectives, we feel it would be impossible now determine at what precise point it should be used, if ever.

Sent Department 1522, repeated OffEmb Canton 404 (for Clark), Taipei as 91 (for Merchant).

CABOT

611.9331/5-649: Telegram

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

SHANGHAI, May 6, 1949—10 a. m.

[Received 12:05 p. m.]

1528. Shanghai representative US Lines states company has just cleared American ship Taku Bar for Shanghai with efficient handling and good discipline among Communist personnel engaged entry [and] clearance ship.

He believes calls US Consulate personnel on American ships calling Taku Bar desirable if Communist consent obtainable and no delays in ship clearance results. Deptel 779, April 28, 10 a. m.

In light Tientsin's 231, April 11, repeated Shanghai 152, possible better prospects Communist consent if proposed calls made at master's request instead of as requirement provided communications and time permits, still using need Marine notes protest as ostensible reason for calls.⁶⁷

Sent Department, repeated Nanking 855, Canton 407, Hong Kong 83.

Department pass to Tientsin 46.

CABOT

⁶⁷ In telegram No. 1078, May 27, 9 p. m., to the Consul General at Shanghai, repeated as No. 381 to the Consul General at Hong Kong, the Department agreed with this suggestion and directed that they "encourage masters all vessels scheduled call Tientsin to request consular [staff] call shipboard for performance routine consular services." (611.9331/5-2049.)

611.9331/5-1149 : Telegram

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

NANKING, May 11, 1949—5 p. m.

[Received May 12—2 : 02 a. m.]

998. We fully concur with Shanghai's 1528, May 6 to Department and hope it will be possible for Tientsin Consulate personnel personally to perform shipping services for American vessels calling at Taku Bar. We believe we should miss no opportunity including this one, to impress Communists with fact that it is in their own interests for American Consulate to continue [to] function on Chinese soil.

Sent Department 998; repeated Shanghai 556, Embassy Canton 398, Hong Kong 25, Tientsin 29, Peiping 154.

STUART

693.003/4-1549 : Telegram

*The Secretary of State to the Consul General at Tientsin (Smyth)*⁶⁸

WASHINGTON, May 17, 1949—7 p. m.

107. Dept considering problem raised by Commie abrogation GATT tariff rates (urtel 242 Apr 15) but discrimination imports from North China believed impractical due difficulty ascertaining real origin most commodities. Believed trade could circumvent discriminatory duties against imports North China by transshipment Hong Kong, Shanghai or other ports, with possibility tracing origin only in case few goods such as rugs and carpets. To be effective therefore would have to deny GATT rates to China as whole, which deemed undesirable.

As matter policy Dept would prefer convince Commies if possible that GATT provides equal benefits Chinese exports. For example, of goods exports of which monopolized by Commie authorities (urtel 168 Mar 25⁶⁹), in GATT US bound duty on sorted, bunched, prepared bristles at 3 cents lb, reduced duty soybean oil from 3½ cents lb but not less 45 percent ad valorem to 3 cents lb not less 22½ percent ad valorem, reduced duty castor beans from ½ cent to ¼ cent lb, on castor oil from 3 cents to 1½ cents lb, on peanut oil from 4 cents lb to 3 cents lb, and bound duty on cottonseed oil at 3 cents lb. Similarly, of products not monopolized, US reduced duty walnuts, shelled, blanched, roasted, prepared, from 15 cents to 7½ cents; rugs not made power-driven loom from 50 cents sq ft but not under 45 percent ad valorem to 15 cents sq ft but not under 22½ percent ad valorem; woolen floor coverings nspf valued at more than 40 cents sq ft from 60 percent to

⁶⁸ Repeated to the Consuls General at Peiping and Shanghai as telegrams Nos. 300 and 969, respectively.

⁶⁹ Not printed.

40 percent ad valorem, valued at not more than 40 cents sq ft from 30% to 15% ad valorem. Other examples in Schedule XX GATT, which can be compared rates shown in Tariff 1930⁷⁰ or Customs House Guide.

You authorized bring facts of such concessions made in GATT by US to attention customs and other appropriate officials in manner deemed best. Shld explain GATT is multilateral trade agreement concurred in by 23 different sovereign nations including Czechoslovakia, but, if asked, not USSR, that tariff concessions contained in it were negotiated by individual countries with each other, that in each case concessions were made by both parties and resulted in advantages and benefits deemed equal both parties. In negotiating concessions with China, US tariff concessions of course depended on concessions China was willing to make, and vice versa. You may inform such authorities as you can reach that it is not generally policy of US Govt discriminate against trade other countries unless US trade unfairly treated, and this Govt hopes it will not be necessary reconsider problem due Commie action re GATT.

Peiping should attempt reach authorities there with parallel and similar representations.

ACHESON

693.119/5-1949: Telegram

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

SHANGHAI, May 19, 1949—8 p. m.

[Received May 20—3:43 a. m.]

1736. [For] Clark, Canton. Deptel 841, May 3, 7 p. m. eyes only Cabot, Clark, Merchant. I concur in Department's comments re risk applying R procedure without cordial British cooperation which they evidently reluctant accord. Attitude British colleagues here shared by important British trade interests quite strongly disinclined toward any measures likely to be interpreted by Communists genuinely or for propaganda purposes as economic warfare although British apparently would welcome "concerted action policy" toward questions recognition and appointment foreign banks within circumscribed limits to their advantage.

I am fully cognizant, appreciative difficult position colleagues Tientsin, Peiping which we expect shortly to share but believe immediate interest in Shanghai would be best served by postponement application R procedure until Communist performance demonstrates overtly hostile attitude toward basic American interests or through

⁷⁰ Approved June 17, 1930; 46 Stat. 590.

sheer indifference places ConGen's or communities in intolerable situation warranting note of warning which institution R procedure would sound.

Unless Department prepared enforce R procedure immediately with full British cooperation, suggest Department consider with Commerce soonest feasibility temporary suspension positive list licenses for Yangtze valley ports recommended mytel late April ⁷¹ (no files here) even though only marginal effects obtainable, for ostensible publicly announced purpose facilitating orderly handling *force majeure* clauses in sales contracts and letters credit due suspension of shipping to Shanghai. If possible issuance public notice that effect prior to or simultaneously with Shanghai take-over would be most desirable.

I believe such action if taken immediately might convey useful impression to Communists re ability our Government control distribution positive list items to Communist areas without implication our entry on economic warfare program and without need immediate British cooperation which I regard essential to effective use R controls.

Communists already familiar with positive list procedures (Tientsin 307, May 14 [11] ⁷², repeated Shanghai 212) and have been given informal assurances this procedure based on short supply considerations with no implications economic warfare. This connection would blanketing items on list 1A, and 1B on positive list for screening exports from USA and SCAP to China, Hong Kong, Macao and north Korea be feasible as convenient device obtain benefits R procedure without publicity their adopting to restrict trade Chinese Communist areas? Same consultation with ConGen's in Communist areas is obtainable under either procedure but I believe continuance positive list less provocative.

For [*sic*] foreign utility ownership Shanghai should afford topics for discussion with Communists by managements, possibly leading to informal participation by foreign consular officers and in any case providing indirect vehicle for conveying our views to Communists, an advantage which consular authority North China found it difficult to develop.

In absence overtly hostile Communist attitude toward this office after take-over, suggest inadvisability implementation R procedure here prematurely. This viewpoint supported as to Sino-SCAP trade by comments second paragraph Tientsin 306 May 14 [11], 9 a. m., ⁷³ repeated Shanghai as 211, indicating Communists sending information upon which base trade policy rather than indication of formulated plan.

⁷¹ Telegram No. 1338, April 25, 5 p. m., p. 933.

⁷² Not printed.

⁷³ *Post*, p. 982.

Also suggest above proposals for policy implementation afford greater flexibility essential to meeting rapidly changing situation than R procedure which very probably would be interpreted at least for propaganda purposes as deliberate adoption economic warfare measures, notwithstanding any public disclaimers our part.

Sent Department 1736, repeated Canton 497.

CABOT

611.9331/5-2049 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 20, 1949—2 p. m.

[Received May 23—1:37 a. m.]

341. Shanghai telegram 46, May 6, sent Department 1528. ConGen took up with Tientsin FonAffs Bureau question Consul personnel calling on American ships at Taku Bar and was told question travel outside Tientsin within province Tientsin Public Safety Bureau. Latter Bureau, when approached, referred to non-recognition Consulates and said question raised by US not covered by Bureau's regulations. Reiteration of our desire to have facilities to perform services for American ships brought forth same reply.

This is further example of Communist refusal take cognizance ConGen except where ConGen functions to Communists' interest, as in issuance Consular Invoices which facilitates Communist foreign trade.

We feel having master request consular officer call on ship worth trying.

Sent Department, repeated Nanking 210, [Shanghai] 234, Hong Kong 342.

SMYTH

693.003/5-2049 : Telegram

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

SHANGHAI, May 20, 1949—8 p. m.

[Received May 20—2:30 p. m.]

1759. Consulate General Shanghai cordially concurs in tolerant approach to GATT problem set forth Deptel 107, May 17, 7 p. m., to Tientsin, repeated Shanghai 969, and believes Smyth and Clubb might emphasize Department's restraint in continuing GATT benefits to US imports from China despite Communist abrogation GATT benefits on US exports entering China. We believe No[rth] Chinese colleagues should stress action Communists themselves has afforded us

opportunity and possibly even provocation for withdrawal GATT benefits, and [had?] we chosen engage in economic warfare tactics which we seeking to avoid but which they apparently applying under pretext lack recognition, for instance their noncooperative attitude re Brown's⁷⁴ temporary detail Peiping (Tientsin's 331, May 17 to Department,⁷⁵ repeated Shanghai 229) and failure afford US, other foreign consular officers within their jurisdiction usual treatment in conformity accepted international practice.

Communists might also wish consider field for withdrawal GATT benefits has been materially enlarged by their occupation Hankow and prospective Shanghai takeover where benefits from reconsideration their hasty action would be materially enhanced or where they might eventually be penalized in case they insist upon abrogation GATT commitments, not by US alone but by all other signatories.

Suggest Smyth and Clubb be authorized inform Communists our willingness to be patient for time being while they familiarize themselves with GATT scope, purposes and its specific provisions applicable China and that temporarily we are prepared defer presentation question their abrogation Chinese Government commitment to co-signatories now engaged further GATT negotiations Annecy, France,⁷⁶ and our willingness explain our viewpoint as expressed Deptel under acknowledgment in event question raised by other signatories for purpose temporary postponement action. However, Communists will appreciate recent and prospective enlargement areas over which they claim jurisdiction will increase adverse effect their unilateral abrogation GATT tariff rates will have on foreign imports entitled to preferences and may jeopardize trade in considerable number of major Chinese export commodities entitled to benefits in GATT countries.

Sent Department 1759, repeated Nanking 971, OffEmb Canton 509. Department pass Peiping as 154 and Tientsin as 510.

CABOT

693.003/6-249 : Telegram

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

PEIPING, June 2, 1949—5 p. m.

[Received June 3—1 : 26 p. m.]

925. ReDeptel 300, May 17.⁷⁷ Presented May 29 to Chang Tsung-ping (see Contel 912, May 31⁷⁵) memo based on Depreftel setting

⁷⁴ Willard O. Brown, Consul at Tientsin.

⁷⁵ Not printed.

⁷⁶ Third Session of Contracting Parties to the GATT which began on April 11. Direct negotiations were completed by August 27.

⁷⁷ See footnote 68, p. 940.

forth position re GATT as instructed, for presentation to Minister Industry and Commerce.

Chang informed me today he did not present memo or detailed contents to Yao ⁷⁸ but discussed matter in general terms by phone and was informed Communists had abrogated GATT tariff because agreement was one of treaties signed by Kmt ⁷⁹ government, that matter could perhaps be given consideration again at such time Communist government recognized.

Chang Tung-sun present at today's conversation re subject.

Sent Department 925; repeated Nanking 605, OffEmb Canton 141, Shanghai 615, Tientsin 55.

CLUBB

611.9331/5-3149 : Telegram

The Acting Secretary of State to the Consul General at Tientsin (Smyth) ⁸⁰

WASHINGTON, June 16, 1949—7 p. m.

148. 1. Under circumstances described urtel 369, May 31,⁸¹ imports probably subject only customs and sanitation regulations.

2. Dept not in position comment advisability specific contracts private firms with Communist monopolies.

3. US not opposed trade with Communist areas. For your info only and not for communication to inquirer, conditions under which such trade may be carried on subject policy decisions re export controls and GATT.

WEBB

600.939/6-1849 : Telegram

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

SHANGHAI, June 18, 1949—8 a. m.

[Received June 18—5:45 a. m.]

2338. ReDeptel 1174, June 11, 7 p. m.⁸² ConGen wishes emphasize need for considerable flexibility in administrative export controls adopted with British cooperation to take account very evident trend toward economic political regionalism in Communist China which may eventually lead to formation "Union [of] Socialist Republics" in China, with Manchuria as first unit. Broad differences treatment

⁷⁸ Yao I-lin, Communist official at Peiping.

⁷⁹ Kuomintang (Nationalist Party).

⁸⁰ Repeated as No. 1216 to the Consul General at Shanghai.

⁸¹ Not printed; it reported an approach to an agent of a foreign company regarding export of bristles to the United States by the Communist North China Foreign Trade Bureau bristle monopoly.

⁸² See footnote 38, p. 853.

foreign consular personnel, foreign exchange problems, foreign trade banking regulations, currency and domestic exchange rates, taxation and travel regulations, etc., evident between North and East Central China, though less marked than north Great Wall. Yee Tsoong also reports regional administration appearing former Meng Chiang⁴⁴ area. Likelihood South China and portions West China will also take shape under separate quasi-independent administration, with distinctions in terms trade controls, taxation, etc.

Although evident general trade control policy must be applicable all China, ConGen believes possible advisability administering licensing exports to specific areas on selective basis by areas determined by treatment accorded American interests worthy careful study, partly for direct effects justifiable by differing conditions in various areas, and partly in effort lead East Central and North China to closer orientation toward Atlantic power and away from orbit Soviet and Soviet-dominated Manchuria. Such administrative procedures might even prove useful weaken Soviet influence Manchuria.

At same time ConGen reiterates its view premature curb exports in absence serious overt act obviously prejudicial our national interests since might give color our initiation campaign economic warfare which might hamper efforts undertaken North China, Nanking and Shanghai toward establishment consular offices and whole American commercial, cultural position on proper basis.

Sent Department; repeated Canton 739, Nanking 1237; Department pass Peiping 176, Tientsin 74.

CABOT

693.0031/6-1849 : Telegram

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

SHANGHAI, June 18, 1949—1 p. m.

[Received June 18—10:04 a. m.]

2346. Department reminded periodic post-war reports Tientsin regarding trading North West China [and] Manchurian exports to USSR for dumping on world markets to acquire foreign exchange Soviet benefits. Rumored here Liddell Bros., British firm, recently sold 60,000 Hankow goatskins to USSR Trading Company similar purpose. Also reported Soviets active acquiring by barter and purchase substantial quantities Tsining Shantung furs, some North China bristles as well as practically all Manchurian bristles, furs and from Turkestan-West China camel wool cashmere, most of which destined

⁴⁴ Inner Mongolia.

London, New York as in past years. Kmt Central Trust barter deal early 1947 recalled enabling Soviet dump substantial quantities bristles in London.

Consul General believes considerable truth Tientsin's 407, June 13 [9], 4 [3] p. m.,⁸⁵ regarding Communist intention create Amtorg counterpart which we feel would facilitate USSR in acquiring dominant role marketing Chinese exports [from] North China [and] Manchuria in world markets primarily as device acquisition foreign exchange for Soviet benefit but also run legitimate foreign and Chinese traders out of export trade, reminiscent pre-war Japanese trade tactics. Consul General believes Tientsin, Peiping may be able furnish useful information regarding current trends North China [and] Manchurian trade [in] furs, bristles, et cetera, indicating Soviet buying or barter along lines suggested.

Consul General regards this problem serious and more difficult solution than devising enforcing essential export controls Communist China with British [and] other Atlantic powers cooperation. In view plan send technical delegation London discuss export controls (Deptel 1174, June 11, 7 p. m.)⁸⁶ Consul General recommends delegation review with British ways, means combatting Soviet efforts monopolize Manchurian and China exports for dumping London and New York to disadvantage all legitimate foreign trade in China proper.

With regard Tientsin bristle monopoly, Consul General Shanghai expects, once remittance, shipping and rail facilities effectively re-established, large scale revival smuggling North China bristles here, notwithstanding control efforts North China Foreign Trade Bureau, particularly so long as wide spread exists in US dollar rates now PB 1650 Shanghai against about PB 1,000 to 1,200 North China. In past, Shanghai shippers also benefitted lower customs valuations used calculate amount foreign exchange delivery required Central Bank. Despite new economic concepts, Consul General expects traders use tried methods evade trade foreign exchange control procedures whenever inconvenient, in which they most expert.

Consul General feels deal described Tientsin's 405, June 14 [9], 5 a. m. [2 p. m.]⁸⁵ and similar messages Tientsin clearly establish need effective US policy coordinated with British to deal with Chinese exports from Communist areas.

In dealing with specific problems North China, Manchuria bristle trade, Consul General suggests consultation with Kronk, Vice President Frederic Cone and Company, New York City, recent visitor at Shanghai.

⁸⁵ Not printed.

⁸⁶ See footnote 38, p. 853.

Repeated Canton 741, Nanking 1243, Hong Kong 157, Peiping 177, Department pass Tientsin 76.

CABOT

560.AL/6-2549 : Telegram

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

SHANGHAI, June 25, 1949—3 p. m.

[Received June 25—1:20 p. m.]

2492. Following translation local Chinese press June 22:

“A certain responsible official of Chinese Maritime Customs informed this reporter that ‘GATT’ tariffs (international tariff reduction concessions), which have all along been a stranglehold on this country by the British and American imperialists, have been abolished since liberation. These tariffs, the official explained, constitute most unfair and unreasonable practice. On basis of these tariffs, imports from Britain, US and other countries enjoy ‘tariff concession and reduction’ privileges. Although in theory Chinese exports may also enjoy similar privileges abroad, in actual practice with imports of British and American goods predominating in our foreign markets, the system is at best only outwardly reasonable. After investigation and consideration by People’s Government, the system had been declared most unreasonable one and been finally abrogated.”

In view evident deliberate Communist decision withdraw GATT benefits from North China Shanghai imports as better policy “because foreign imports always exceed exports making operation GATT unfavorable to China”, ConGen feels US Government should take immediate steps deny GATT benefits to Chinese exports to USA, from Communist ports, despite administrative difficulties involved controlling transshipments Hong Kong or elsewhere, and should proceed at once with consultation contracting powers in effort obtain exclusion Communist China from GATT concessions by all signatories.

ConGen believes rather role all cp’s⁸⁸ should take joint action against Communists, in preference to unilateral US action.

Although ConGen feels GATT benefits should be removed from exports Communist ports, as matter of fact few South China exports to USA entitled GATT benefits and normal volume as exports subject GATT rates to Nationalist-held ports South China unimportant to them as ports handle less than 10 percent China’s total imports. Hence, withdrawal GATT benefits from Nationalist China would have slight effect on trade under present conditions.

⁸⁸ Contracting parties.

We must assume Communist intentions revise tariffs upward across board possibly directed against major American and British imports as such. In that case might prove advantageous require Communist renew adherence to GATT rather than leave problem dangling indefinitely in hope of persuading eventual reconsideration.

ConGen feels as Communists initiated this issue they should be made to feel immediate consequences by all signatories.

Sent Department, repeated Nanking 1352, Canton 803, Peiping 182; Department pass Tientsin 80.

CABOT

560.AL/7-349 : Telegram

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

NANKING, July 3, 1949—2 p. m.

[Received July 3—5:27 a. m.]

1429. Re Shanghai telegram 2493 [2492,] June 25 to Department, repeated Canton 803, Peiping 182, Tientsin 80, and previous.

Embassy suggests desirable obtain more positive evidence actual implementation reported intention authorities Shanghai abrogate GATT rates. Specifying cases where importations Shanghai subject agreement rate but actually charged pre-agreement rate or else official proclamation or indication some sort seems needed provide firmer ground for actual counter-moves by GATT signatories.

Embassy fully supports recommendation reffel contracting parties should not hesitate proceed with complicated procedures required adjust agreement rates vis-à-vis exports Communist China if Communists definitely adopt policy abrogation such rates. At same time, Embassy would like point out importance of timing in any retaliatory moves contemplated. Sudden retaliation against Communist at this point in time could hardly be expected have immediate adverse visible effects Communist exports on important scale because action Nationalists in closing ports has resulted in insignificant volume exports, imports moving in China trade today. Believe full significance such move on our part this particular moment would be lost to Communists.

Sent Department, repeated OffEmb Canton 605, Shanghai 794, London (for Martin⁸⁹) 10, Peiping 249. Department pass Tientsin 49.

STUART

⁸⁹ Edwin M. Martin, Deputy Director of the Office of International Trade Policy, who was engaged in technical-level discussions with British representatives regarding imposition of trade controls on exports to China. For correspondence on this subject, see pp. 817 ff., *passim*.

646G.9331/6-1549 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, July 12, 1949—5 p. m.

2405. Hong Kong despatch 170 June 15⁹⁰ recently received indicates change in composition Hong Kong trade with Commie China which may be significant. Ships leaving there for Tientsin and Yingkow June 3 carried in cargo tungsten wire, milliammeters, laboratory apparatus, ball bearings, tungsten carbide tips, and considerable quantities copper wire and copper ingots. Total of 7,535 copper ingots (of which 5,716 described as "Anaconda electrolytic"), 141 crates copper plates and 12 cases electric wire shipped Yingkow alone; 1,612 coils copper wire shipped Tientsin.

With reference recent talks Martin and McIntyre⁹¹ in London re export controls China, you should call these shipments attention appropriate officials and point out dangers unsupervised trade of this kind. Relatively large shipment ingots disturbing. Department regards this as perfect example what might be expected develop in many other lines in absence any controls exports Far Eastern destinations.

You should not present this as suggestion shipments copper to Manchuria or China should be banned but merely as example dangers unrestricted trade subject no controls or end-use checks.

ACHESON

693.119/7-1449 : Telegram

*Memorandum of Telephone Conversation, by Mr. Stephen C. Brown
of the Division of Commercial Policy*

[WASHINGTON,] July 14, 1949.

Mr. Klerekoper of US Steel Export Co. telephoned me on July 11 and told me, with reference to our conversation of last week,⁹² that while in New York over the week-end he had learned from his head office that Jardine, Matheson & Company of Shanghai had asked for quotations on 75,000 tons of steel rails for delivery to Shanghai. The request came through Jardine's agents in New York, Balfour, Guthrie and Company.

⁹⁰ Not printed.⁹¹ Francis E. McIntyre, Assistant Director of the Office of International Trade, Department of Commerce, participated with Mr. Martin in discussions at London with the British Government on imposition of trade controls on exports to China.⁹² On July 6 Mr. Klerekoper had informed Mr. Brown that U.S. Steel Export Co. did not want to engage in trade contrary to the policy of the Department of State and he had been told by Mr. Brown that so far he knew of no change of policy (693.119/7-649).

Mr. Klerekoper said that his company regarded the order as unusual in present circumstances, and very large. The cost at present market prices would be US\$7,500,000. No information had been received as to the place or end-use of these rails. He said that in view of our conversation last week his firm would quote on this inquiry. They protected themselves, of course, on the question of export licenses, and their terms were letter-of-credit in New York.

I thanked him for this information and said we would appreciate any further information on unusual inquiries from China.

893.00B/7-1749 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, July 17, 1949—6 p. m.

[Received July 17—1: 57 p. m.]

2806. Darkening political, economic picture threatening personal safety all foreigners (ConGentel 2796, July 16⁹³), especially top management Shanghai; indicates need for consideration ways, means facilitating gradual orderly liquidation, withdrawal American firms, organization individuals whenever they voluntarily, or as result excessive pressure, desire to do so.

Problem presents exceptional difficulties, particularly so long as Nationalists' blockade keeps shipping out of Shanghai, leaving at best diminishing trickle tonnage via Tientsin, other North China, Manchurian ports difficult access to foreigners from Shanghai due Communist rail travel restrictions.

While blockade lasts, imposition export controls would appear have slight effect on Communist policies or economy in Central China, except possibly turn focus anti-foreigner campaign that direction and apply further heat on American firms [and] citizens without serious direct effects detrimental to Communists at Shanghai, Nanking, Hankow. However, once British cooperation at Hong Kong assured, Consul General⁹⁴ believes export controls should be authorized, carefully timed and adjusted as to scope, flexibility warranted by circumstances.

Consul General appreciates mechanical difficulties inherent freezing controls on emigrant remittances from USA to Communist China, especially should Canton fall, since, to be effective, we would have to include Philippines, Thailand, NEI,⁹⁵ Burma, Straits, and particularly Hong Kong in our controls. Moreover, seriously to impair

⁹³ Vol. VIII, "Political and military situation in China", chapter VI.

⁹⁴ Mr. McConaughy was acting as Consul General, Mr. Cabot having departed.

⁹⁵ Netherlands East Indies.

viability Communist economy, should that become our objective, co-operation among these countries in taking parallel action would have to be sought, but would probably be unobtainable effectively due fears political repercussions from Chinese colonies in countries named.

Consul General understands serious implications application general Treasury licensing controls to Communist China, but Communist effort repatriate Chinese capital held USA, to assume control Chinese Government fiscal institutions and assets in USA,⁹⁶ and to extort funds from American firms to cover excessive overhead due lock-ins, other labor pressures to which arbitrary discriminatory punitive capital levies added at Hankow, Tientsin, envisaged at Shanghai also,⁹⁷ indicate need for fiscal controls to protect American interests comparable British Treasury licensing which could be invoked in serious emergencies.

To illustrate serious nature burdens imposed by labor demands and overhead, Stan Vac⁹⁸ paid equivalent US dollars 178,000 as severance pay [to?] contract terminal labor in addition regular monthly payroll US dollars 140,000 or total US dollars 320,000 for June alone which they hope cover by local sales stocks. Company has received no indication amount capital income tax levies Shanghai but feared may cost between quarter-half million US dollars, but unreasonable amounts under normal trade conditions but ruinous at present.

This connection Consul General notes Tientsin's 497, July 11 [9]⁹⁹ indicates foreign banks exempt from capital income tax levy, presumably due collection capital deposit for which foreign banks forced sell foreign exchange or other assets. Significant these levies follow close on heels foreign exchange surrender requirements throughout Communist China.

Truth is, due blockade and other above-cited factors, we have little immediate, effective, economic leverage with which to work on Communists. Consul General recognizes Department has shown his [*sic*] reluctance to use ineffective, premature or provocative measures. However, we now face situation where more positive measures may eventually be needed to deal with Communist attacks on American citizens and interests due Communist unwillingness recognize international obligations, conform international usages or afford decent treatment foreign residents.

In these circumstances, Consul General suggests consideration fea-

⁹⁶ For correspondence on this subject, see pp. 729 ff., *passim*.

⁹⁷ For correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter II.

⁹⁸ Standard-Vacuum Oil Co.

⁹⁹ Not printed.

ibility following tentative program to be authorized for discretionary application to facilitate gradual orderly liquidation withdrawal by those American firms, et cetera, wishing to leave.

1. Once British cooperation at Hong Kong assured, imposition well-timed export controls carefully adjusted as to scope, flexibility required by circumstances.

2. Imposition Treasury licensing controls on all bank accounts held USA for firms, individuals Communist China.

3. Prompt steps withdraw GATT benefits from chief ports originating in Communist China accompanied by publicity.

4. Publicity re formation, operation Communist state trading companies including dumping suggested Tientsin's 496, July 11 [9],¹ accompanied by non-liquidation US customs entries.

5. Public hearings by US Tariff Commission to determine justification for increased import duties on tung oil, bristles, walnut kernels, dressed fur pelts, raw furs, other suitable Chinese exports now entitled duty free entry or entry at frozen duty rates under GATT or Tariff Act 1930, at which complaints Communist trade monopolization, discrimination, unfair competition and general unsatisfactory treatment American nationals [and] firms can be publicly aired.

In suggesting above program, Consul General does not recommend use export or Treasury licensing controls as economic sanctions but simply as demonstrations their availability and our ability to apply economic pressures should that become necessary for protection American lives and property. Similarly, with respect publicity, Consul General does not advocate anti-Communist campaign on economic issues but rather maneuvers such as Senator Pepper's² proposed import duty on tung oil which was soft-pedaled due our obligations under GATT; and objective public investigations comments on Communist trade policies, practices. Our experience Shanghai indicates Communists somewhat sensitive to public statements in USA re our attitude toward them, which we should seek to use to our own advantage to fullest possible extent. These comments made with specific reference Paragraph 9, ConGentel 2796, July 16.³

Although Nationalists' blockade prejudices immediate effectiveness either export controls or threats to saleability Chinese exports in American markets, Consul General believes even at this time significance such measures will not be wholly lost on Communists in North China or (to less extent) [garble] in view Tientsin's declared exports to USA for June of US dollars 1,500,000, and possibility Tientsin may replace Shanghai as major export port in case blockade less effective there.

¹ Not printed.

² Claude D. Pepper, of Florida.

³ Vol. VIII, "Political and military situation in China", chapter VI.

Consul General believes objective publicity re Communist problems, policies and behavior in economic as well as political field at home and via VOA,⁴ radio and world press affords useful means mobilization public opinion to which Communists top levels may be somewhat responsive and a means likely to produce results.

Sent Department, repeated Nanking 1582, Department pass Tientsin.

McCONAUGHY

611.9331/7-2649 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, July 26, 1949—5 p. m.
[Received August 3—7:19 p. m.]

562. Reference treatment to which US Consular establishments and personnel in China have been subjected by Communists, without our having been able take effective counter measures, has been serious loss face detrimental to US interests and plays in hands Communist "paper tiger" propaganda. In our opinion, protests as in case USIS⁵ closing idle gesture which emphasizes our seeming impotence. We believe only way we may possibly make Communists realize they cannot have everything their way is by economic retaliation and suggest following means:

(1) Immediate suspension all agreement tariff rates (ourtel 242, April 15) including GATT concessions.

(2) Immediate invocation subsidy duty penalty provisions (ourtel 496, July 9⁶) and holding up all Chinese exports arriving United States, pending investigation of Consuls each case. We should let it be known that for entry [of] imports Consular investigation necessary; this to deter any idea of Communists about closing Consulates.

(3) Limit export licenses to private firms exporting to traditional private importers in China, namely, petroleum products to SVOC and Texaco⁷ exclusively, as they established in China and directly representative United States business interests. Limitation on exports to China would have to be worked out with British and other Atlantic alliance states in order prevent US firms losing market to foreign competitors (for example, Communists at present able buy oil products freely in Hong Kong, boiler tubes in Belgium).

Sent Department; repeated Nanking 314, Shanghai 363. Department pass Peiping.

SMYTH

⁴ Voice of America.

⁵ United States Information Service.

⁶ Not printed.

⁷ Standard-Vacuum Oil Co. and Texas Oil Co.

646G.9331/7-3049 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

[Extract]

SHANGHAI, July 30, 1949—3 p. m.

[Received July 30—6:35 a. m.]

2971.

Hinke⁸ has observed apparent reluctance on part British Minister (Commercial)⁹ to take seriously need for realistic rational export controls at Hong Kong, a problem which will become pressing once Communists take Canton. Until British agree to some effective supervision over Hong Kong exports to Communist China, western powers will obviously lack essential economic leverage for dealing with Communists on important problems. Unaware any satisfactory substitute for export controls at Hong Kong.

MCCONAUGHY

601.9531/7-3149 : Telegram

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

Moscow, July 31, 1949.

[Received July 31—10:33 a. m.]

1896. Soviet press July 31 carries brief announcement recent presence Moscow "trade delegation from Manchurian People's Democratic Authorities led by Kao Kang¹⁰" and conclusion one year bilateral trade agreement under which Manchuria furnishes soy beans, vegetable oil, corn, rice and other goods while USSR furnishes industrial equipment, automobiles, petroleum products, cloth, paper, medicines and other goods. States delegation left Moscow for home July 30.

Sent Department, repeated Nanking 83, Peiping 1.

KIRK

661.9331/8-549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 5, 1949—5 p. m.

[Received August 5—9:35 a. m.]

3061. Local press has eagerly seized upon Soviet-Manchurian barter agreement and is eulogizing it as evidence Soviet friendship

⁸ Frederick W. Hinke, Consul and Commercial Attaché in China at Shanghai.⁹ John Colville Hutchison.¹⁰ Member of the Central Committee of the Chinese Communist Party.

together with strong hints it will help solve Shanghai's economic problems particularly as offset to allegedly imperialist-inspired blockade by Kmt.

In view probable Soviet inability provide more than mere dribble China's economic needs, Department may wish consider for propaganda purposes via VOA and otherwise committing [commitments?] Soviets to aid program for China. It might incidentally be pointed out Soviet *quid* for Chinese *quo* involves such items as soya beans, vegetable oil, maize and kaoliang, all of which currently in short supply in Shanghai. According Communist press, Soviets will supply industrial equipment, automobiles, kerosene, cloth, newsprint, pharmaceutical supplies, many of which were furnished Chinese people under ECA program without exaction essential goods from Chinese in return.

Sent Department 3061, repeated Nanking 1695.

McCONAUGHY

661.9331/8-649 : Telegram

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

NANKING, August 6, 1949—2 p. m.

[Received August 7—2:30 a. m.]

1727. It seems to us that USSR has placed itself in rather anomalous position by signing recent trade agreement with "Northeast People's Democratic Government of China": Either USSR has accorded *de facto* recognition to most important regional government of Communist China while itself maintaining full diplomatic relations with Nationalist China or it has admitted to world that Manchuria has special status within Soviet orbit similar to that formerly held by Outer Mongolia and Tanna Tuva. If latter is case, this should be bitter pill for Nationalistic elements in Communist China to swallow. This agreement of ["NE People's Democratic Government" with a foreign power has no parallel in case of "North China People's Government" and Central China and other liberated areas, for latter have hitherto limited themselves to trade agreements with each other.

Fact that agreement meets with approbation of CCP hierarchy as well as Soviet-sponsored Chinese Communists in Manchuria is indicated by fact that Kao Kang, who headed Chinese Trade Delegation to Moscow, is member of CCP Politburo. Furthermore, CCP-controlled press is making all-out effort to drum up popular enthusiasm for agreement by quoting laudatory statements of workers, industrialists, students, economists, et cetera, to effect that agreement is based on footing of equality and mutual benefit, that they hope exchange of goods will be extended to include remainder of China as well as new

democratic countries in eastern Europe, that agreement is blow at "imperialist" blockade, that USA used to send China nylon stockings whereas USSR sends industrial machinery, et cetera. On humorous side is fact that none of these comments is based on any knowledge of terms of agreement. For all these observers know, ratio of Manchurian exports to imports may be very unfavorable or industrial equipment so desired by CCP may constitute only insignificant fraction of imports from USSR. Obviously intelligent comment is impossible as long as terms of agreement are kept top secret.

As to economic aspects, we assume agreement probably involves heavy exports of soya beans, vegetable oils, maize and rice to USSR at terms very favorable to Soviets. Presumably benefits to Soviets must have been great to induce them thus to deviate from their long-standing policy of "correctness" toward Nationalist Government. Note that these same commodities are vitally needed in other Communist-occupied areas such as North China and Shantung where early severe famine threatens. Not only for humanitarian relief but also to help relieve rampant inflationary conditions, these surplus Manchurian commodities would be most welcome, for instance, in Peiping where price of millet has increased about six times since last April or in Shanghai where during similar period rice prices have increased fivefold.

Sent Department; repeated Shanghai 949, EmbOff Canton 720, Moscow 55; Department pass Peiping 323.

JONES

611.9331/8-749: Telegram

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

NANKING, August 7, 1949—noon.

[Received August 7—2: 54 a. m.]

1734. Re Embtel 1727, August 6 (repeated Shanghai 949, Canton 720). Recommend VOA exploit opportunity offered by announcement trade agreement between USSR and "northeast people's democratic government" to play up Chinese Commie policy subordination Chinese national interest to requirements Soviet expansionism. Believe broadcast treatment should highlight following points:

Conclusion of agreement between USSR and government portion of China appears another link in long chain of evidence indicating Chinese Commies acquiesce in Soviet ambitions sever Manchuria from China proper. Similar treaties preceded Soviet action detaching Mongolia from Chinese sovereignty. Similarity to pattern set by Japs in setting up independent "Manchoukuo" obvious.

Chinese Commie commitment under agreement to ship foodstuffs to USSR shows callous disregard needs of own people in view famine conditions now threatening north and Central China.

Additionally, comment might be made on blatant hypocrisy Soviets in according *de facto* recognition Manchurian government while pretending maintain friendly relations with Nationalist Government.

Sent Department, repeated Embassy 727, Shanghai 954.

JONES

611.9331/8-949: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 9, 1949—8 p. m.

[Received 11:02 p. m.]

3142. ConGen would appreciate Department's comments re Tientsin 562, August 4 [*July 26*] proposing application economic sanctions on Communists. Re Tientsin's specific recommendations, ConGen Shanghai notes:

1. Termination GATT concessions on Chinese exports as proposed Shanghai telegram 2492, June 25.

2. Reference Chinese exports USA discussed ConGentels 2346, June 18 and 2538, June 29.¹¹ Chinese press August 5 reports take-over Chinese Hog Bristle Co. by East China Foreign Trade Co. and announces shipment hog bristles after processing to USSR via Tientsin, presumably following policy and possibly in conformity prior commitments Central Trust to USSR. Continued indications received Communists paying premium prices for export goods in Central China interior which at present unrealistic foreign exchange rates can only be sold abroad below actual PN costs or through subsidies.

3. ConGen feels export licences should be withheld on shipments to Communist organizations in China proper taken over from Kmt such as China Petroleum Corp. (Deptel 1520, August 3¹²) especially if foreign exchange paid by Kmt. That connection ConGen writing CPC asking information re status orders and end use. Understand CPC building Pol refinery Shanghai. ConGen will send specific reply Deptel 1520 when CPC response received.

4. In view reported USSR trade pact with "Manchurian People's Government", would it be feasible place Manchuria in same status European satellites [and] USSR re export controls with concurrence all other Atlantic powers if necessary using pressure obtain European, British cooperation and effective screening? As suggested ConGentel 2971, July 30, no effective substitute known for effective British export controls Hong Kong especially should Canton fall.

If possible ConGen suggests should public announcement this effect be made distinction between Manchuria and Communist areas China

¹¹ Latter not printed.

¹² Not printed.

proper might be stressed due evident closer affiliation Manchuria to USSR (ConGentel 2338, June 18).

McCONAUGHY

661.9331/8-1249

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

No. 37

CANTON, August 12, 1949.

[Received August 22.]

SIR: I have the honor to transmit a full translation of the diplomatic note from the Chinese Ministry of Foreign Affairs delivered to the U.S.S.R. Chargé d'Affaires in Canton, V. V. Vaskov, on August 6, 1949, strongly protesting against the conclusion of a one-year reciprocal trade agreement between the U.S.S.R. and the "Manchurian People's Democratic Authorities".

The full text of the note follows:

Since the signing of the Sino-Soviet Treaty of Friendship and Alliance between China and the U.S.S.R. in Moscow on August 14, 1945,¹³ the Government of China, for the purpose of maintaining and strengthening the friendly relations existing between China and the U.S.S.R., has earnestly fulfilled her treaty obligations in the hope that the Government of the U.S.S.R. would adopt a like attitude of respect for the treaty and would strictly fulfill her obligations thereunder. The facts, however, are the opposite of the hopes of the Chinese Government. The Government of China repeatedly called the attention of the Soviet Ambassador to China to the instances of non-fulfillment of treaty obligations on the part of the Government of Soviet Russia. On August 25, 1948, Dr. Wang Shih-chieh, then Minister of Foreign Affairs of the Government of China, again discussed the matter frankly with Soviet Ambassador Roschin and, after pointing out the instances of non-fulfillment and violation of the Sino-Soviet Treaty of Friendship and Alliance on the part of the Government of the U.S.S.R., urged the Government of the U.S.S.R. promptly to correct its mistaken actions in order to promote friendly relations between China and the U.S.S.R. During the year that has elapsed since that discussion, the Government of China has steadfastly maintained its consistent respect for the treaty obligations. The attitude of the Government of the U.S.S.R., however, has shown no sign of improvement, a fact which the Government of China cannot but regret very deeply.

The Government of China has now received a report that the Government of the U.S.S.R. and a delegation of the so-called "Manchurian People's Democratic Authorities" recently negotiated and concluded in Moscow a one-year reciprocal trade agreement. In the Exchange of Notes (I) (A) 1, for Sino-Soviet Treaty of Friendship and Alliance, it is stipulated that "the Government of the U.S.S.R. agrees to give to China its moral support as well as aid in military sup-

¹³ United Nations Treaty Series, vol. x, p. 300; for correspondence on this subject, see *Foreign Relations*, 1945, vol. VII, pp. 851 ff.

plies and other material resources, such support and aid to be given entirely to the Central Government of China, i.e. to the National Government." The so-called "Manchurian People's Democratic Authorities" with whom the Government of the U.S.S.R. has now concluded a trade agreement constitute a rebellious group attempting to overthrow by force the National Government of China. Furthermore, in the Exchange of Notes (I) (A) 2, it is provided that "the Government of the U.S.S.R. regards the Three Eastern Provinces as part of China and reaffirms its respect for China's full sovereignty over the Three Eastern Provinces and recognizes its territorial and administrative integrity." The conclusion of a trade agreement by the Government of the U.S.S.R. with the so-called "Manchurian People's Democratic Authorities" ignores China's full sovereignty over the Three Eastern Provinces. It is indeed obvious that such acts constitute an intentional violation of the Sino-Soviet Treaty of Friendship and Alliance.

Therefore the Government of China hereby strongly protests and solemnly declares that the Government of the U.S.S.R. will be held wholly responsible for all consequences arising from the aforesaid violation of treaty obligations and breach of faith on the part of the Government of the U.S.S.R.

Respectfully yours,

LEWIS CLARK

560.AL/8-1249: Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, August 12, 1949—7 p. m.

1597. Following comments re recommendations urtels 2806, July 17, 2907, July 23,¹⁴ 3142, August 9, and Tientsin's 562, July 26:

Department plans, as you know, impose more effective and comprehensive export controls upon obtaining cooperation Brit and other Governments. Will keep you advised.

Re blocking Chinese funds in US, see Deptels 1369, July 8,¹⁵ 1443, July 20,¹⁶ and 1452, July 21.¹⁷ Brit FonOff states does not contemplate freezing Chinese fon exchange assets at present time.

Difficult questions involved decision re GATT. Believe suspension concessions negotiated initially China in itself sufficient retaliation for Commie repudiation. Department presently studying three alternatives: (1) Suspension, in consultation agreement Chinese Government, all concessions negotiated initially China; (2) Suspension, in consultation agreement Chinese Government, all concessions negotiated initially China insofar as applied imports from Commie areas only; (3) Suspension, in consultation agreement Chinese Government, concessions negotiated initially China on products originating chiefly

¹⁴ No. 2907 not printed; it recommended a study be made regarding freezing Chinese funds abroad by governments of the West (893.5151/7-2349).

¹⁵ *Ante*, p. 797.

¹⁶ *Ante*, p. 800.

¹⁷ Not printed; see footnote 31, p. 797.

or exclusively Commie areas. In all cases suspension would mean restoration prior rates insofar as imports from Commie areas concerned. In no case envisaged would such concessions necessarily be withdrawn from all Contracting Parties until China situation clarified re political control Chinese exports and Commie refusal apply GATT rates clearly hardened uniform general policy. At such time US might seek consent other parties withdraw entirely concessions negotiated China, relieving US of obligations to maintain generally GATT rates on such items and making possible duties Chinese products higher than provided 1930 tariff due pressures domestic industry. Whichever alternative Department may choose it recognizes timing is most important consideration and inclines view Nanking's 1429, July 3 and urtel 2644, July 7¹⁸ that present not most opportune time for positive steps. Publicity will of course accompany any withdrawal concessions.

In Department's view sponsorship increased tariff rates on Chinese products aside from normal escape action (that is, duties higher than provided by Tariff 1930) inconsistent general US commercial policy objectives.

Should Commie commercial policy show clear evidence discrimination against US trade (abolition GATT rates appears uniform and without discrimination) President has power under section 338¹⁹ Tariff Act to impose as penalty duties higher than provided 1930 Tariff or even to exclude Chinese goods altogether. This however would have to be based evidence discrimination, unfair treatment and not on mere fact failure comply obligations trade agreement.

Department not disposed make special effort publicize Commie state trading practices though factual economic reports are made available to trade. General US commercial policy condones state trading so long as conducted in non-discriminatory manner along lines normal commercial considerations (See Art XVII GATT). Any evidence dumping, discrimination or other unfair practices can and will be handled in accordance existing legislation.

Action such as you suggest therefore inadvisable.

ACHESON

661.9331/8-1349 : Telegram

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

Moscow, August 13, 1949—1 p. m.

[Received 1:37 p. m.]

2025. As first formal and public move in otherwise undisclosed pattern of Soviet intentions toward Communist China recent un-

¹⁸ No. 2644 not printed.

¹⁹ 46 Stat. 704.

heralded announcement of trade agreement between USSR and "Manchurian People's Democratic Authorities" gives us tangible clue to nature of understandings which may have been reached between Mao and Kremlin (Embtel 1896 ²⁰ and Nanking's 1727 to Department, August 6).

First reaction some foreign observers here was that trade agreement represented Soviet move to detach Manchuria from rest China and that storms brewing between Moscow and CCP. While Manchuria may become eventual bone of contention between Communist China and USSR, information Nanking's 55 ²¹ re Kao Kang's status and favorable reaction CCP-controlled press effectively dispel any illusions or [of] rift at this time and in fact points toward agreement as being initial step carefully worked out plan for "economic cooperation" between Communist China and USSR with special reference Manchuria.

Existence such understanding was foreshadowed Nanking's 37, June 9 ²² which impresses this Embassy as sound analysis Soviet economic intentions Manchuria. Interesting to note, however, that press announcement here referred to trade delegation as representing "Manchurian People's Democratic Authorities" whereas Nanking's 1727 indicates Chinese Communist press uses phrase "Northeast People's Democratic Government of China".

Natural query is why even if authorities concerned felt agreement to regularize trade necessary public announcement had to be made at all—and at this time. Embassy suspects that publicity stemmed more from Mao's need to prove to followers that he is on right track in eschewing economic aid from capitalistic West and pinning his hopes for industrialization China on Soviet aid than any other factor (his July 1 speech ²³). Note that "industrial equipment" first item on list Soviet products to be sent Manchuria.

Desire meet Mao's needs this regard must have outweighed in Soviet thinking considerations re *de facto* recognition, etc., mentioned Nanking's 1727, which in present context China situation could appear to Soviet mind as mere "formalities". Soviets may feel they could if necessary defend "correctness" their course by citing principles and precedents international law under which trade agreements as such do not constitute recognition. Also possible that Soviets and Chinese Communists may have decided better arrange agreement be concluded on Chinese side by local Manchurian authorities in order minimize any outcry re recognition.

²⁰ July 31, p. 955.

²¹ Same as No. 1727, August 6, from the Counselor of Embassy in China, p. 956.

²² Same as No. 1246, June 9, noon, from the Ambassador in China, vol. VIII, "Political and military situation in China", chapter V.

²³ See also telegram No. 1443, July 6, 1 p. m., from the Ambassador in China, vol. VIII, *ibid*.

Fact that agreement was made name [*with?*] Manchurian group does, however, stimulate speculation re separatist form Manchuria (and other border areas such as Sinkiang and Inner Mongolia) may assume in eventual political constitution Communist China. Possible Soviets envisage establishment Federation Chinese Socialist Republics as pattern best suiting Kremlin purposes.

Whatever may be form of autonomy enjoyed by Manchurian Chinese Communist Republic, it now seems clear that Manchuria will become scene of marked Sino-Russian "cooperative" effort out of which both parties anticipate political and economic benefits. Soviets will thereby achieve strong leverage on China as a whole for internal recovery latter dependent Manchurian capacity for heavy capital growth. Soviets may also see in Manchuria their industrial base FE to counter balance US-dominated Japan.

Blinded by ideological glare, Mao and Co. may see in industrialization Manchuria under Soviet direction only basic cure for many economic ills China. It will be worth our while to follow closely and to exploit whenever possible inherent contradictions in this Kremlin "point four" program for Manchuria, for Soviet inability to deliver on economic aid will bring Chinese Communist disillusionment while on other hand even if aid forthcoming and economic development considerable Soviets would exploit fruits thereof for their own purposes and thus reveal to Chinese Communists and "progressives" true nature Soviet imperialism.

Sent Department; repeated Nanking 88, Dairen 29, Canton 46.
Department pass Peiping 3.

KIRK

611.9331/8-1449: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 14, 1949—8 a. m.

[Received August 14—12:35 a. m.]

3227. Re Tientsin's 367, August 7 [2], sent Department 580.²⁴ From American Commercial Attaché Hinke.

If not already in effect, suggest [Department of] Commerce consider advisability immediate establishment [and] use secret unofficial unpublished "proclaimed list blocked nationals[?]" as phase export controls on shipment to Communist China, particularly applicable Soviet firms and cloaks working primarily in interest Chinese Communists. Have felt lack such controls applicable North China has been

²⁴ Not printed; it reported the major part of North China's foreign trade was being handled through firms having Communist or pro-Communist management or connections (611.9331/8-249).

prejudicial national interests USA since VJ Day. Believe such list might also be effectively used by US Customs in screening imports from Communist China for undervaluation, sales below production costs, efforts accumulate capital in USA for Chinese Communists' benefit, and generally keeping tabs on activities Chinese Communists and Soviet cloaks, whether working under own names or however related to business with USA.

ConGen Shanghai on lookout for similar activities here, temporarily suppressed due blockade.

To be most effective, such list should be placed in hands OIT²⁵ screening officers and customs officers principal ports entry.

Sent Department 3227. Department pass Tientsin. [Hinke.]

McCONAUGHY

611.939/8-1549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 15, 1949—8 p. m.

[Received August 16—9:30 a. m.]

3249. Following summary prospects Shanghai exports to US remainder 1949. [Here follows summary.]

Conclusions: Shanghai export outlook remainder 1949 very poor. Even if blockade end in sight, following factors make it unlikely that Communists will realize much foreign exchange from exports:

- (1) Unrealistic exchange rate;
- (2) High ratio rice costs to export prices discourages production;
- (3) Labor costs increasing inland as well as Shanghai;
- (4) Export goods have low priority on internal transport system;
- (5) Conditions still unsettled in many producing areas under Communist control;
- (6) Numerous parasitical Communist trade regulations hamstringing trade;
- (7) Many stocks depleted by rush sell-out as Communists advanced south in first half 1949.

Dollar earning outlook very poor. Declared exports to US first half 1949 at Shanghai totaled US dollars 14,455,439, prospects remainder 1949 not over 7,000,000.

However, continued effectiveness Nationalist closing of port make it possible that total Shanghai foreign trade may not equal 2-3 million remainder 1949. Exporters now planning ship through Tientsin which will involve delays, higher transport and extra handling charges which may make exports economically unfeasible. Some exports ordinarily

²⁵ Office of International Trade in the Department of Commerce.

shipped through Shanghai may find outlet through Hong Kong and some may be carried by blockade runners.

McCONAUGHY

611.9331/8-2249

*Memorandum of Conversation, by Mr. Emory C. Swank*²⁶

[WASHINGTON,] August 22, 1949.

Participants: Mr. Cabot, Consul General, Shanghai²⁷

CP-Mr. Corse²⁸

Mr. Swank

CA-Mr. Magill²⁹

FN-Mr. Doherty³⁰

DS-Mr. Werner³¹

(The meeting was arranged by Mr. Magill for the purpose of permitting interested officers to discuss with Mr. Cabot problems of economic importance in US relations with Communist China. The discussion was approximately subdivided into the following topics of conversation.)

1. *Possible US Action re Termination or Suspension of GATT Concessions Negotiated with China:*

Mr. Cabot strongly emphasized his view that the US should be prepared to suspend or terminate, whichever was preferable, concessions to China negotiated initially with that country under GATT. He stated that the formal withdrawal of concessions should be appropriately timed in order that the public announcement would operate to the maximum disadvantage of the Communist regime and pointed out that the formal withdrawal should in no event be allowed to coincide with US recognition of the Communist regime,³² when and if such recognition materialized. He particularly stressed his view that this Government could not, as a matter of principle, fail to suspend or terminate US concessions to Communist China since our failure to take such action would constitute a dangerous precedent. It was generally agreed that the US should take no formal action until the Communists had for all practical considerations consolidated their control of the Chinese mainland. It was also generally realized that

²⁶ Vice Consul at Tsingtao, temporarily assigned to the Division of Commercial Policy.

²⁷ In the Department for consultation.

²⁸ Carl D. Corse, Acting Chief of the Division of Commercial Policy.

²⁹ Robert N. Magill of the Division of Chinese Affairs.

³⁰ Edward W. Doherty, Assistant Chief of the Division of Financial Affairs.

³¹ Norman C. Werner of the Division of Protective Services.

³² For correspondence on this subject, see pp. 1 ff.

our suspension or termination of the Agreement would have little economic effect on the Communists for the duration of the blockade.

Mr. Corse discussed at some length the background and nature of GATT, pointing out that it is a multilateral agreement and that concessions under it, as under the former bilateral agreements, are generalized to all countries, whether or not they are signatories to the Agreement. He therefore felt that as an initial step in our preparation to suspend or terminate concessions, an exploratory study should be made in CP to determine which other contracting parties to GATT have a secondary interest in products on which concessions were originally negotiated with China. It was agreed that to the extent possible the United States should endeavor to enlist the cooperation of other contracting parties to suspend or terminate concessions negotiated by them with China. It was also agreed that the Nationalist Government would probably not raise any objections to a general withdrawal of concessions on products originating in Formosa as well as on the Chinese mainland.

The relative merits of suspension versus termination of concessions were discussed by Mr. Magill and Mr. Corse, but no final selection of the type of action to be preferred was made.

2. Possible US Action re Freezing of Chinese Official and Private Assets in the United States³³ and Controlling the Flow of Remittances to China:

Mr. Doherty explained that the possible effectiveness of instituting controls of this nature through powers now vested in the Treasury would be seriously diminished by the difficulties inherent in efforts to obtain during time of peace the full cooperation of other governments in implementing the controls. In addition, the administrative machinery for the execution of such controls is both complex and cumbersome and had been operated only with difficulty during World War II. He intimated that it was therefore most unlikely that the Administration (NAC³⁴) would consider that the objective to be gained by instituting the controls would warrant the establishment of the necessary machinery to implement them. Mr. Magill pointed out that it was more feasible to control the use rather than the flow of dollars and that our policy of export licensing served this purpose to a considerable degree.

3. Imposition of Countervailing Duties on Communist Subsidized Exports:

Mr. Swank and Mr. Werner pointed out that a specific instance of the possible subsidization of a shipment of apricot kernels from Tien-

³³ For correspondence on this subject, see pp. 817 ff., *passim*.

³⁴ National Advisory Council.

tsin had recently been brought to the Department's attention by the Consulate General. The telegram had been referred to Treasury and it was understood that the Customs would be apprised of the shipment through ordinary channels.

It was agreed that investigations by the Customs into reportedly subsidized shipments from Communist areas would be instigated regularly upon receipt of information from the field, but it was equally recognized that concrete evidence to substantiate the imposition of countervailing duties was difficult to obtain. Mr. Doherty recalled an investigation of the reported subsidization by the Nationalist Government of the export of hooked rugs, during the course of which it became apparent that the subsidy granted to the exporter by the Government was to a large degree offset by the maintenance of unrealistically low exchange rates. Mr. Cabot suggested that almost every government with an unfavorable trade balance was inclined to subsidize exports. The consensus was that countervailing duties would probably not be imposed on imports from Communist China in sufficient degree to act as a real deterrent to Communist practices of subsidization.

661.9331/9-1649 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 16, 1949—4 p. m.

[Received September 18—7:39 p. m.]

3889. Info mytel 3747, September 9,³⁵ strongly suggests Soviets, in conformity consistent postwar economic policy, using new Soviet-Manchuria trade pact get soybeans (possibly bristles, furs, other NE commodities) not for own consumption as alleged by Chinese Communist apologists, mytel 3731, September 9,³⁶ but to sell on world market as means acquiring foreign exchange at China's expense (mytel 2538, June 29³⁶).

During war, USA bought over million pounds camel wool, cashmere each from USSR, origin Chinese Central Asia, Murmansk port shipment. Postwar, Soviets bought up with occupation money large amounts bristles, furs, casings in north Manchuria, substantial quantities shipped London, New York. Early 1947 USSR got fair amounts bristles from central trust on barter, part dumped in London. In '46 and '47 Soviets dumped enough Manchurian kolinski in New York to lower market price. Above reported by Tientsin 1945-48 inclusive.

Lower prices offered by Soviets for soybean shipments ex-Dairen than obtainable from Chinese Communists direct ex-Chinwangtao,

³⁵ Not printed; it reported sales of at least two cargoes of Manchurian soybean meal by the Soviet trade mission at London. (661.9331/9-1649.)

³⁶ Not printed.

Hulutao, Antung or Newchwang, attributed to lower freight rates, also suggests Soviets have rigged rail tariffs in favor Dairen as disguised subsidy. Also likely Chinese Communists, in order meet commitments to Soviets under new trade pact, forced to subsidize producers direct to cover difference between actual production costs and amounts credited by Soviets to Chinese Communists on barter deals, either through increases in Tung Pei Bank credits or by enlarging NE note issue. North China soybean prices reported 10 percent above world market. See mytel 3477, August 26.³⁷

If above analysis correct, Soviet "totalitarian monopoly" has clearly outdone past performances foreign "imperialist monopoly capitalists" in exploitation of "colonial areas," the more brazen due Soviet handling on inter-governmental basis. Through new pact, Soviets appear firmly entrenched as "monopoly middlemen," thus cutting out "wasteful competition" of Chinese Communists themselves in latter's efforts enter world markets direct. Soviet performance also outdoes Japanese exploitation Manchuria as Japs at least made large capital investments build up Manchurian economy and assumed big administrative responsibilities, which Soviets handle by remote control. Unlikely Soviets intend restore Japanese machinery equipment taken as war booty, much less add new equipment. Note also Soviets may regard British purchases soybeans [as] tacit British acquiescence in new "Soviet mandate for Manchuria" represented by trade pact.

Soviet imports caviar, chocolate, large quantities cheap cotton textile North China whether on barter [or] otherwise, reminiscent Nazi barter deals with satellites, especially as Soviet textiles compete unfairly directly with Communist-run CTII³⁸ North China mills. Only Soviet aspirin, cameras needed complete picture. Soviets also shipped 4,000 tons POL into Tientsin last spring by rail, or half tanker load. How much oil Soviets delivering NE/North China now? Soviet deliveries machinery North China, NE reported uniformly poor materials, workmanship, antiquated design.

ConGen presumes Department has reviewed with British Soviet trade policies Manchuria discussed mytels 2538, June 29³⁷ and 2346, June 18 in relation Soviet-Manchuria trade pact.

ConGen also suggests VOA prepare special feature supplementing recent VOA broadcast on pact named, which appeared to American Commercial Attaché as very well done based on *Ta Kung Pao* defense Soviet aggression Manchuria, mytel 3731, September 9,³⁷ supplemented by exchange letters re advantages for Chinese in Soviet-

³⁷ Not printed.

³⁸ Cotton Textile Industries, Inc.

Manchuria pact, mytel 3731, September 8[9] for which above comments possibly useful.

USSR reported dickering for 3,000 tons carpet sheep wool in Tientsin, possibly prelude to Soviet-North China barter deal.

McCONAUGHY

661.9331/10-749 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 7, 1949—1 p. m.

[Received October 9—7:17 a. m.]

823. . . . Machinery now arriving in Mukden from Russia, in return for soya beans under barter agreement with Chinese Communists, is same machinery taken away from Manchuria by Russians in 1945. Engineer, who is familiar with machinery, says it is packed in same boxes as when taken away.

SMYTH

646G.9331/11-449 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, November 4, 1949—9 a. m.

[Received November 10—10:46 a. m.]

902. Recent press reports in Hong Kong papers and elsewhere appear stress opportunities for extensive import-export trade development with Chinese Communists and intimate golden opportunities await aggressive firms willing promote trade relations with Communists. Continually expanding North China foreign trade since Communist take-over cited as illustrating opportunities awaiting Hong Kong and foreign firms elsewhere.

We believe this to be misinterpretation statistics and ignorance certain facts re trends North China trade at present time. Granted North China exports to US and Hong Kong steadily increased since Communist take-over. This, however, due complete standstill of trade for several months early this year which got off to very slow start and is still substantially below average for 1948 when Kmt Tientsin was virtually surrounded by Communist armies. For example, Tientsin consular declared exports to US figures during period June-October 1949 when Tientsin served as only major active port in China (Shanghai blockaded): Total monthly shipments to US averaged approximately \$1.5 million. In comparison 1948, total declared Tientsin exports to US under Kmt approximately \$20 million.

There were no new export contracts in November and December 1948 due military conditions. Shipment statistics for these months represent carry-overs from previous months. Therefore, figures for over-all exports to US from Tientsin stemmed from trade in period January–October 1948 resulting in trade average of \$2 million per month.⁴¹ Available information indicates exports to Hong Kong that period proportionately greater than recent Communist North China–Hong Kong trade.

Re imports, exact figures not available but Tientsin total monthly imports June–October 1949 believed same proportion as during first 10 months 1948 under Kmt. When considering June–October 1949 imports included also commodities for Shanghai and other North China areas as well as for Manchuria, actual import trade figures for North China alone must be considered as well below those of last year.

Foregoing does not take into account barter deals with Soviet Union which appear to be expanding and becoming of growing importance and which may even commence to supplant most direct trade with US and Hong Kong in wool, bristles, furs and other commodities (see ourtels 859, October 17 and 788, September 27⁴²).

Suggest facts mentioned above and in reference telegrams and other telegrams emanating this Consulate General re North China trade might be used as basis for preparation VOA broadcast to counteract recent rosy VOA broadcast and other news reports re North China trade.

SMYTH

893.5151/11-949 : Telegram

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

SHANGHAI, November 9, 1949—10 a. m.

[Received November 9—5:51 a. m.]

4716. Becoming apparent East China trade authorities concerned with question foreign exchange for necessary imports, particularly dollars. Obvious that tough-minded Communist policy will bring stringent controls on quick-turnover, large profit gadgets and luxuries on which Kmt dissipated much Chinese foreign currency reserve but also obvious that as blockade is breached Communists must

⁴¹ For figures during April and May 1949, see telegram No. 306, May 11, 3 p. m., from the Consul General at Tientsin, p. 982.

⁴² Neither printed. The former (611.616/10-1749) reported bristles formerly finding an outlet in the United States were being bartered by the Chinese Communists with the Soviet Union for gasoline, trucks, textiles, and machinery. The latter (165.470/9-2749) indicated about 150 tons of Chinese wool had been purchased in the last few months by the Soviet trade delegation.

find means importing necessities to keep economy, particularly Shanghai industry, going and implement vaunted reconstruction plans. Mytel 3249⁴³ estimated US \$7 million would be earned from Shanghai area at best in second half 1949. Reference telegram also said possible figure as low 2-3 million. Thus far US exports total 1.7 million from Shanghai and 800,000 Tientsin. Many exporters of opinion also that cream has been skimmed. Communists possibly realize that exports cannot hope pay for needed imports. Recent straws are:

1) News story that US \$200 million Chinese capital fled to Hong Kong. Paper suggests this would cover needed imports.

2) Another paper suggests that overseas remittances if properly channelled will cover needed imports.

3) Authorities here now permitting purchase of foreign exchange at premium by private importers.

4) Several attempts made induce importers register goods stranded by blockade for which Kmt had furnished foreign exchange. Paper estimated US \$30 million involved but only US \$600,000 plus equivalent US \$2.4 million other currencies registered this far.

5) Attempts hold banks responsible payment foreign exchange on L/C when goods not landed Shanghai.

McCONAUGHY

611.9331/12-249

*Memorandum of Conversation, by Mr. Stephen C. Brown of the
Office of Chinese Affairs*

[WASHINGTON,] December 2, 1949.

Participants: Armco Steel Co.—Mr. McCabe
Mr. Edwards
Mr. McKnight
CA—Mr. Freeman
Mr. Brown

The Armco representatives on November 30 came in by previous appointment at their request to inquire about the Department's attitude towards trade with China.⁴⁴ They explained that they were receiving cable inquiries and orders from their representatives in Communist-held territory, and were wondering whether they should go into this business seriously or whether they should tell their correspondents to save their cable tolls and submit inquiries by mail as

⁴³ August 15, p. 964.

⁴⁴ A number of similar conversations during 1949 with representatives of business concerns interested in trade with mainland China are recorded in the Department files. This memorandum is printed as typical in showing the Department's attitude on trade with Communist-occupied China.

and when possible; also whether there was likelihood that such trade would be permitted.

They were informed that so long as they complied with all the requirements of current export regulations they would be subject to no criticism. It was not possible to go much beyond this, or to discuss particular commodities, since no government agency could or would give them assurances in advance that an export license for a given commodity would be granted if required and applied for. Similarly, it was not possible to say anything about the possibility of future changes in export regulations; all that could be said was that if they complied with current regulations at the time of shipment they would be in the clear.

They said they were of course aware of this, but hoped that we would be able to give them some general indication of the Department's attitude towards the trade in general. They understood that there were interdepartmental committees concerned with the subject and indicated that they were under the impression that the Department's attitude and policy were determining, in a general sense.

Mr. Brown said that there were of course interdepartmental consultations on the subject, and that the Department was represented, but that the Department's views were not necessarily determining. In a general way it might be said that one of our primary concerns with trade with China was the possibility that goods now denied to Russia and the satellites in direct channels might filter through to them via China. One of the main reasons for the recent Commerce changes in the export control system was understood to be this possibility of transshipment. Mr. Freeman added that of course we were also concerned about the possibility of the Chinese Communists acquiring goods for direct military uses and purposes in China.

They asked whether it might be inferred that there was no objection to trade in commodities serving China's normal civilian economy. Mr. Freeman said that for their confidential information this was essentially the case, and that within reason we did not object to the export to China of goods of an essentially civilian character for the civilian economy of China. We had no desire to restrict or hamper the normal economy of the Chinese people.⁴⁵

As they left, Mr. Brown said that of course we were interested in any inquiries of an abnormal or unusual character which might come to them, and asked that we be kept informed of any such if they felt free

⁴⁵ In despatch No. 209, March 20, 1950, the U.S. Mission at the United Nations reported that, in a letter received by the UN Secretariat on March 6, the Chinese Permanent Representative at the UN (Tsiang) gave notice of the decision of his Government to withdraw from GATT, the withdrawal to take effect May 5, 1950 (394.31/3-2050).

to communicate them to us. They said they could perceive no objection to this, and suggested that they might also send us for our confidential information copies of letters from their correspondents regarding conditions in Communist China.

646G.9331/12-2049 : Telegram

The Consul at Tientsin (Wellborn) to the Secretary of State

TIENTSIN, December 20, 1949.

[Received December 21—9: 13 a. m.]

1065. Tientsin Chinese English Intelligence December 19 in article on Hong Kong market conditions stated that trade between Hong Kong and North and Central China was on increase despite Kmt blockade. Following statistics attributed to "foreign merchants" given: Total exports from North and Central China to Hong Kong for September 1948 HK \$5,800,000; for September 1949 HK \$20,000,000. Total exports from Hong Kong to North and Central China for September 1948 HK \$20,800,000, for September 1949 HK \$48,400,000.

We have no means verifying accuracy statistics. Hong Kong may be able report actual volume.

Sent Department 1065, repeated Shanghai 456.

WELLBORN

III. INTEREST OF THE UNITED STATES IN CHINESE COMMUNIST EFFORTS TO REVIVE TRADE WITH JAPAN

693.9431/4-1249

The Commercial Attaché in China (Hinke) to the Chief of the Division of Chinese Affairs (Sprouse)

[Extract]

SHANGHAI, April 12, 1949.

So far as I am aware, no direct trade has thus far developed between North China-Manchuria and Japan. Some commodities from Communist areas, notably soybeans and beancake, have been shipped to Japan via Hong Kong, where goods in exchange were acquired on a barter basis. To date, such transactions are understood to have been exclusively barter in the literal sense. I understand, however, that for some commodities for which the need is particularly urgent, the Communists are prepared to pay in gold or US currency on deposit in

Hong Kong. You are, of course, aware that the term "North Korean products" is largely a euphemism to cover goods of Manchurian origin.

I have a feeling that a revival of direct trading between Communist areas and Japan will present exceptional difficulties for some time to come, largely because of the extraordinary (but somewhat similar) trade procedures followed in these two areas.

To illustrate one phase of the problem, I am told that, to date, the Kailan Mining Administration is being permitted to barter coal for flour only, and that the Communists have not allowed the company to exchange coal for other mine essentials such as mine timbers or machinery replacements. In fact, the new North China Foreign Trade Regulations exclude the entire timber category from the list of "permitted imports". It is not known whether they hope to meet mine timber requirements from Manchuria, through barter deals with Siberia, or whether they are unaware of their needs for mine timbers. Aside from the considerable ignorance with which the Communists appear to be blessed, they may well wish as a matter of considered economic policy to avoid direct trading with Japan, even though such a development might prove mutually advantageous.

One possibility of indirect trade with Japan may arise in connection with the sale of North China wool and cashmere taken over from the Chinese-American Corporation (representing Nationalist "bureaucratic capital"), a concern which sought to make such a sale through the Chinese Mission in Japan (see USPOAd's⁴⁶ Operations Memorandum of March 26, 1949 to Shanghai, copy attached⁴⁷). Tientsin's telegram to the Department No. 419 of March 16, 9 a. m.⁴⁸ indicates that the North China Communists evidently intend to use the facilities of the concern named as its "favored instrument" for selling wool, camel hair and cashmere abroad. I believe for the time being the North China authorities will seek to use Hong Kong as their exclusive trading base for transactions with Japan.

FREDERICK W. HINKE

693.9431/4-3049 : Telegram

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

PEIPING, April 30, 1949—9 a. m.

[Received 7:14 p. m.]

732. ReContel 723, April 28.⁴⁸ Informed by US representative Far Eastern Trading Company just back from Tientsin that he also has

⁴⁶ U.S. Political Adviser in Japan (Sebald), attached to the Supreme Commander, Allied Powers (MacArthur).

⁴⁷ Not found attached to file copy.

⁴⁸ Not printed.

been in touch with Ministry Industry and Commerce and has been commissioned by them try work to rearrange trade between North China and Japan on system either barter [or] linked trade or both. Project envisages employ private US firm make arrangements and his firm interested. Has been in touch his New York office but negotiations now hampered by break international cable North China.

He confirms regime wants export salt, coal, soy beans, and particularly soy cake of which he estimates 10 to 20 tons now available Tientsin. Coal could be exported large quantities. Local authorities want in return besides machine parts, indicated Conrefitel, radio and telecommunications equipment, paper, railroad materials such as frogs, switches, locomotive parts, ties, copper wire.

He said re last named item he had been invited bid for supply 3,000 tons but had been underbid by Tientsin dealer who apparently calculated [he] would be apply [*able supply?*] cargo by taking advantage remittance rates but who now caught by changed rates. Reported further Communists state they could obtain copper wire from Japan at \$600 ton c.i.f.⁴⁹ Taku if SCAP⁵⁰ approval forthcoming.

Source reports available figures indicate only \$200,000 foreign trade thus far through Tientsin but that Communists avid foster that trade particularly with Japan. Authorities say they assured shipping would be available and source assumes they may be able obtain sufficient tramp bottoms carry out such trade.

Source desirous know whether Department and SCAP would in principle approve [and] facilitate such trade. Source wishes obtain trade his firm and so of course undesirous publicity be given his firm's interest.

Chinese contact mentioned Conrefitel has sought meeting with me and scheduled see him tomorrow. Will report soon developments.

ReContel 356, March 5,⁵¹ invite attention fact that present developments offers made to order instrument exercise leverage against Chinese Communists purposes pry them from Soviet camp. Recent developments re Berlin and particularly fourth of slogans issued by Soviet Communist Party for May Day will probably constitute considerable shock Chinese Communist leaders. Economic difficulties of handling industrial plant North China and problem Manchuria can only be increased if drought brings real famine, Contel 729, April 29 [30].⁵² Suggest Soviets may already have discovered that difficulties of bolstering up tottering Chinese economy are more than they desire shoulder present circumstances.

⁴⁹ Cost, insurance, and freight.

⁵⁰ Supreme Commander, Allied Powers in Japan.

⁵¹ Not printed.

⁵² For correspondence on United States consular establishments in Communist areas, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists".

In circumstances recommend most strongly I be authorized convey to Communists in response to any such approach regarding trade with Japan simple reply that SCAP and US Government would be ready to give sympathetic consideration to matter such trade at such time as Chinese Communists extend US Consular establishments in Communist-controlled areas usual facilities,⁵⁴ including particularly contact with local authorities for their functioning as set forth in joint Consular note April 13, Contel 410, April 19 [21,]⁵⁵ and accorded to American diplomatic establishments respect and privileges due it in accord with international law and courtesy as stated in letter to General Chu Teh⁵⁶ April 27, Contel 730, April 28.^{56a}

Regarding campaign against so-called American imperialism as carried on by official CCP⁵⁷ agencies, which creates atmosphere hardly conducive to fostering better relations whether commercial or political, observe that CCP will probably for present at least still take its line from Moscow. It might tentatively be inferred that Moscow line is on verge adjustment and CCP would follow along [apparent omission] Nationalist China, but whether this true or not consider it would be undesirable take up question propaganda as yet and it had better be let develop Nationalist China for time being I think and be attended to only later.

Since all indications are that time is ripe for action, respectfully recommend matter be given early attention. Believe this especially desirable view position Consulate Mukden. Reiterate firm belief that this opportunity insert opening wedge between Communist China and USSR should be promptly, fully exploited.

Nothing should be given without adequate return.

Please pass Nanking 462, Canton 88, Shanghai 494, Tientsin 39.

CLUBB

693.0031/4-3049 : Telegram

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

PEIPING, April 30, 1949—10 a. m.

[Received April 30—5:29 a. m.]

736. ReContel 732, April 29 [30]. Chang⁵⁸ called today. Said he in contact Ministry [*Minister*] Industry and Commerce, Yao, who desires establish trade contacts North China and Japan. Confirmed North

⁵⁴ See telegram No. 658, April 21, 7 p. m., from the Consul General at Peiping, vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter II.

⁵⁵ Not printed, but see telegram No. 611, April 14 from the Consul General at Peiping, *ibid.*

⁵⁶ Commander in Chief of Chinese Communist armies.

^{56a} Vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter I.

⁵⁷ Chinese Communist Party.

⁵⁸ Chang Tsung-ping, charged by Chinese Communist Minister of Industry and Commerce Yao I-lin with fostering foreign trade, particularly with Japan.

China ready offer 100,000 tons each coal and salt [and] wants in return machine parts particularly for textile and steel industries, newsprint, medicines. Professes be uninformed re other items possible trade, said it was desire first determine matter in principle, then get down details.

He said proposed trade should be mostly barter basis, no money exchange operations contemplated. Trade would be handled Chinese firms this end, some existing, some to be formed, operating under general license North China Government. Shipping would be handled Japanese, contract already existing. Would expect no trouble Chinese Navy. Whole matter decision [for] SCAP.

Told him I would try get information re matter. Please instruct.

Took occasion outline desirability offering facilities for foreign businessmen, noting particular case American oil men unable get North China entry permit (Contel 691, April 22⁵⁹), bad effect anti-American propaganda on trade relations and stressed matter Chinese apparent need foreign trade.

He said Yao willing restore Sino-American trade to prewar level, that Mao Tse-tung's⁶⁰ political thinking was along moderate lines set forth "new democracy". He indicated that situation was complicated by thinking in lower Communist levels along more strictly Communist lines, but concluded by saying there was reason to believe there would shortly be political veering to right.

Handed Chang excerpts from House Foreign Affairs Committee's [report⁶¹] regarding amendment China Aid Law April 1948,⁶² for reference.

Sent Department, repeated Nanking, OffEmb Canton, Shanghai, Tientsin.

CLUBB

693.9431/5-749 : Telegram

The Department of the Army to the Supreme Commander for the Allied Powers in Japan (MacArthur)

WASHINGTON, 7 May 1949.

88278. 1. State Dept has recd several msgs fr ConGen Peiping re rptg inquiries by agts on behalf Chi Commie offs re possibilities Sino-Jap trade. Appears Commies very interested exchange coal, salt, soy beans and soy prods for Japanese manufactured industrial, telecommunications and RR equip and materials and newsprint, largely on barter basis.

2. Some of such exports will be items subj to screening and possibly quantitative restrictions or prohibition cases under US export control

⁵⁹ Not printed.

⁶⁰ Chairman of the Central Committee of the Chinese Communist Party.

⁶¹ No. 323, 81st Cong., 1st sess.

⁶² Approved April 3, 1948; 62 Stat. 158.

pro for China (incg Manchuria and Taiwan), Hong Kong, Macao and Korea now being developed Wash,⁶³ with which SCAP oprs should be coordinated (reWartel 85804 Mar 18 1949.⁶⁴) Hoped that gen criteria can be formulated here which will permit maximization opnl decisions Tokyo re minimum scy restrictions Sino-Jap trade and minimize necessity reference particular cases Wash. Pending such formulation criteria, however, SCAP should refer details Wash any proposed transactions involving Japanese exports to above areas, excluding south Korea, of items appearing 1A and 1B lists of R pro⁶⁵ before arranging firm contract.

3. State Dept believes that, while resumption active trade China and Japan desirable, US Govt and SCAP should employ tacs obtain maximum benefits fgn interests China, particularly normalization US Consular functions which Commies now refuse respect in important instances. For your info, Commies have refused deal any US Consuls except in latters capacity as pvt citizens, have restricted ConGen Mukden⁶⁶ to Consular compound since latter part Nov and permitted him no rad[io] or mail comm[unication]s, refused allow ConGen Peiping and Tientsin pouch sv or code rad for latter. Tientsin able communicate Dept in code by msgr via Peiping which still has own rad. Peiping rad now able communicate SCAP only via Wash as may be case Shanghai when Commies take over.

4. Fol are State Dept proposals: (A) in order avoid impression Commies that Japan dependent on North China and Manchurian exports, SCAP and Jap Govt should avoid taking initiative development Commie China trade. Particularly, no attempt should be made send SCAP trade mission Commie China or invitation extended Chi Commies establish trade representative Japan. When approached, however, by agts fr this area actg for pvt firm or Commies, SCAP should indicate willingness consider trade proposals, but that cannot make adv commitments re aval particular commodities. (B) As inducement Chi Commies, SCAP should proceed carry out profitable transactions involving Jap exports not on 1A and 1B lists of non-credit cash or exchange basis. No prior reference Wash nec, although should be kept informed. (C) If any items desired are on 1A or 1B lists, SCAP should handle negotiations in such manner, as indicated para 5 below, as would induce Commies deal with US Consular representatives China regarding Sino-Japanese trade proposals, accord them access coded rad comms and pouch facilities and reasonable free-

⁶³ For correspondence on this subject, see pp. 817 ff.

⁶⁴ Copy not found in Department of State files.

⁶⁵ For explanation of R procedure and 1A and 1B lists, see telegram No. 285, May 13, 9 p. m., to the Consul General at Peiping, p. 985.

⁶⁶ Angus Ward.

dom of movement. Inasmuch as Commies probably highly sensitive political significance ConGens status, important that these considerations not be indicated as sep *quid-pro-quo* for permitting export Jap capital goods, but that they be represented to Commie agts as important aspects pros inherent SCAP supv all Jap exports in short supply to any area. This would be the case if, as proposed, SCAP and Wash should attempt to obtain fr US ConGens China info re gen economic rqmts and significance proposed Jap 1A and 1B exports to Chinese economy, bona fide character trade proposals, reliability firm or agency, and, in sp cases, evidence re end-use intended and actually made particular items. SCAP should not, of course, reveal to Commie agts nature information desired fr ConGens as stated above, or make reference existence sp categories Jap exports (1A and 1B lists) to which above procs would apply. (D) State Dept believes that above pos re Consular prov info Sino-Jap trade proposals would be more effective if stated by SCAP rather than US ConGens China. If you agree tacs outlined herein, ConGens China will be instructed respond initial trade inquiries by indicating SCAP willing consider specific trade proposals but that gen arrangements and details of particular transactions should be worked out directly by SCAP with firms concerned.

5. Fol lang[uage] proposed for response by SCAP to inquiries re trade proposals fr Commie China should they involve 1A and 1B items:

“SCAP will[ing to] consider proposals, but certain items may be difficult prov due short-sup character and competing demands. If Communist officials wish assist SCAP in determining aval desired Jap exports in light above considerations, they should present proposals and full info to those US Govt Consular representatives which are located in the area of intended importation and utilization. Although ConGens would not, of course, be expected handle actual trade oprs, their expeditious prov info desired by SCAP would be expected greatly facilitate compl transactions and my trade.”

6. In line foregoing, SCAP should drag its feet on any transactions with Commie China and Manchuria involving 1A and 1B lists, until results above pos can be rptd by ConGens China and evaluated here. Suggest careful obsn Jap trade with Hong Kong, rgg assurances re end-use, with view adoption similar pos re proposed 1A or 1B exports to Hong Kong that appear destined Commie China.

7. Pls inform USPolAd.

8. Above procs under consideration. Request your comments as matter of urgency.

[ROBERT R. WEST⁶⁷]

⁶⁷ Deputy for Far Eastern Affairs, Office of the Assistant Secretary of the Army.

693.0031/4-3049 : Telegram

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

WASHINGTON, May 8, 1949—2 p. m.

265. 1. Dept believes desire Chi Commies develop Sino-Jap trade might be used improve position ConGens, but doubts wisdom open demand for recognition ConGen's status as absolute *quid-pro-quo* in view possibility extreme reaction Commies. (Urtels 723, April 28,⁶⁸ 732 and 736, April 30).

2. Dept considers that position re role ConGens could be taken more effectively by SCAP than by ConGens; that when SCAP approached by agents re trade Commie China, if capital goods involved proposed transaction, he should indicate as follows:

[Here follows quoted section of paragraph 5 of telegram No. 88278, *supra*.]

3. Proposed transactions that do not involve Jap capital goods could be carried forward by SCAP without reference ConGens as inducement Chi Commies. Above tactics being considered Army and SCAP. If they concur, anticipate authorize you respond initial inquiries by stating SCAP willing consider specific trade proposals, but that general arrangements and details particular transactions should be worked out directly by SCAP with firms concerned. Envisage that Commie agent firms or private firms acting on own would then contact SCAP under circumstances subject SCAP's discretion, and would be advised in sense para 2 above if capital goods involved proposed barter arrangement.

4. Meanwhile, if you feel immediate response necessary, suggest you indicate understanding inquiries reftels being considered SCAP and that you authorized transmit any further proposals or info regarding trade desired.

5. Request your comments above tactics and will instruct soonest.

ACHESON

693.9431/5-949 : Telegram

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

SHANGHAI, May 9, 1949—1 p. m.

[Received 8:44 p. m.]

1556. Re Peiping's 732. UP despatch Tokyo mentions Japanese press report *Shimbun* of plan develop barter trade between Japan and China and says matter being discussed between "certain Japanese banking interests" and "an influential representative of Chinese Communists recently arrived in Japan["]].

⁶⁸ Not printed.

I feel this adds decided weight to reftel. While recognizing probable advantages of such negotiations from viewpoint our Japanese policy, cannot help wonder whether representatives of Chinese Communists should be admitted to Japan while no American representative, and so far as I know, no representative of any Western Power, has been admitted to Communist China. Also should China Communist representative be permitted discuss trade questions when Chinese Communists refuse to recognize official status of all Western representatives. It occurs to me, as condition for continuation of talks, recognition might be demanded of official status of Consular representatives in Communist China, particularly at Mukden.

Sent Department 1556, repeated Nanking 868, OffEmb Canton 420, Taipei 104 for Merchant,⁶⁹ Tokyo 118, Peiping 142.

CABOT

693.0031/5-1149 : Telegram

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

PEIPING, May 11, 1949—3 p. m.

[Received 5 : 08 p. m.]

815. ReDeptel 265, May 8. Observed Department's proposed line action for SCAP apparently based on premise direct approach will be made him by agents interested in trade. Unclear whether this means agents Japanese firms or representatives Chinese Communists in Japan indicated Shanghai's 1556, May 9, to Department. Believe Communists should not be permitted by-pass Consulates on this occasion, especially since they have already by implication accepted this office as transmitting agent. Granting that American response might be less brusque, believe it should still be designed either keep negotiations in channel Consulate-Department-SCAP or achieve regularizations status North China Consulates. Believe that extreme Communist reaction improbable because their dire economic need, that improbability could be increased by tactics omitting direct response first suggested but channelizing all negotiations in fact through Consulates, that this opportunity force Communists into normal channels instead of those dictated by arrogant "anti-imperialists" should be fully exploited. Suggest SCAP response to any approach should be more direct reference to Consulates in China, that is, that Consulates should be shown as integral part initial negotiations instead of organs which might merely facilitate. Suggest therefore second, third sentences should read along general lines.

⁶⁹ Livingston T. Merchant, Counselor of Embassy in China.

"In order assist SCAP in determining availability desired Japanese exports, interested Communist officials should present proposals and full information to American consular representatives located in areas intended importation and utilization. Expeditious provision in that manner of information desired by SCAP could be expected facilitate completion transactions and movement trade. Consulates of course would not handle actual trade operations, which would be subject arrangements to be worked out in due course by SCAP directly with firms concerned."

For reference, note unconfirmed report Communists are negotiating with Hong Kong [and] Shanghai Bank, Tientsin, for loan 3 million US dollars for purchase wheat. Similar report another source is that Communists desire purchase flour. British Consul states Communist representative approached British Consul [at] Tientsin with request arrange for direct radio traffic between Tientsin station and Hong Kong (because added difficulties experienced as result break international communications previously relayed Shanghai). Note here present importance this Consulate radio for contact equipment with outside world.

Report purportedly Communist in origin indicates Communists plan some regularization position regarding foreigners and Consulates after occupation Shanghai.

Today communicated to intermediary Chang sense fourth paragraph Depreftel for what benefit message might incidentally bring to development contacts with Communist side.

Pass Nanking 517. OffEmb Canton 108, Shanghai 540, Tientsin 46. Sent Department 815 from Peiping.

CLUBB

693.9431/5-1149 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 11, 1949—3 p. m.

[Received May 14—5:14 a. m.]

306. ReDeptel 87, May 5⁷⁰ (quoting Peiping's 732, April 30) and Deptel unnumbered May 8.⁷¹ Our declared export figures show shipments to United States during April about \$629,000 US and in first 10 days May US \$277,000 or total of \$906,000 US. Other data indicates Tientsin exports to Canada and Hong Kong during period April 1–May 10 exceed US \$900,000. Total exports from Tientsin therefore nearly one and one-half millions US dollars, or 7 times figure given by source mentioned in Peiping telegram 732. (Peiping's source obviously not well informed in trade matters.)

⁷⁰ Not printed.

⁷¹ See No. 265 to the Consul General at Peiping, p. 980.

Reference Japan trade (as reported in several of our previous telegrams), various exporters here, who quoted Communists on copper wire and other items from Japan, say manner of Communist approach for quotations and other information on possible trade or barter with SCAP gives them impression these are feelers for information upon which eventual trade policy may be based rather than indication of formulated plan. General feeling here that all high Communist economic officials have eyes focussed on Shanghai and most their foreign trade transactions this area so far either to meet immediate urgent needs or else experimental.

Growing feeling here Communists softening somewhat toward foreigners and towards both private Chinese and foreign enterprise, perhaps as propaganda move to lessen fears in Shanghai prior Communist entry, possibly also as preparation for seeking recognition from US⁷² and other countries upon whom they are commencing realize more and more dependent in reviving trade and building economic independence. Next few weeks should give clearer indication of direction Communists taking this regard.

We concur in proposed action suggested in Deptel May 8 rather than in Peiping's 732. Meanwhile stimulation trade contact with SCAP and other US private and public agencies may well hasten development of "working contacts" with Communists and their recognition our consular establishments but much may still have to await outcome developments in Shanghai.

Sent Department as 306, repeated Nanking as 191, Shanghai as 211.

SMYTH

693.0031/5-1149 : Telegram

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

SHANGHAI, May 11, 1949—7 p. m.

[Received May 12—8:49 a. m.]

1605. Consulate General [at] Shanghai in cordial agreement general policies outlined Deptel 265 to Peiping, repeated Shanghai 875, May 8, 2 p. m., but feels SCAP should interpret term capital goods broadly include most items US positive list,⁷³ especially critical items such as copper wire, diamond dies, etc. We believe SCAP should explain Communist agents Tokyo trade policies at present primarily concerned with problems short supply, end use and end users as justification reference Communist inquiries by SCAP to Consulate Generals North China which are interested in following trade developments

⁷² For correspondence on this subject, see pp. 1 ff.

⁷³ 1A and 1B lists.

closely and will cooperate by supplying end use and WTD ⁷⁴ information to facilitate screening.

Recent end use inquiries received here from Commerce have had beneficial trade effects here and up North as manifestation our surveillance over potential trade with Communist areas, in which we expect inclusion near future, even though unaccompanied by obvious restrictions.

For present we believe policy outlined Deptel cited preferable to adoption restrictive procedures applicable Eastern Europe, also should elicit highly desirable British collaboration more readily.

As phase Japanese-Communist trade problem, exploration reestablishment direct telecommunications circuits Japan-North [China] might be now timely in view suspension Shanghai, Tientsin traffic, completely isolating North China. This connection Department might inform SCAP re early November telecommunications inquiry sent Mukden.

Sent Department 1605; repeated Nanking 884; Canton 436; Peiping 147; Taipei 111 for Merchant. Peiping please pass Tientsin.

CABOT

693.9431/5-1249 : Telegram

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

NANKING, May 12, 1949—11 a. m.

[Received May 13—2: 55 a. m.]

1012. We concur with Deptel 265, May 8 to Peiping, repeated Nanking 561, re tactics to be used in deriving greatest advantage from reported Communist desire to develop Sino-Japanese trade. However, we note that Peiping telegram 732, April 30 to Department, refers only to trade North China (regime referred to is presumably so-called North China People's Government) and not to trade from other parts of Communist-occupied territory. If this interpretation correct, tactics envisaged will not benefit our being [*ConGen*] Mukden.

But we fear reported desire of North China for foreign trade will be short-lived and subordinated to national policy as soon as Communists establish central government. If we can confidently expect anything from Communists, it is that they will set up national foreign trade monopoly soon after formation national government. Importance of such monopoly is emphasized in Soviet writings and practice. In line with Communist custom in other countries, we must then expect Communist foreign trade monopoly to try to conduct all its discussions on diplomatic rather than consular level.

⁷⁴ World Trade Directory, Department of Commerce publication.

Sent Department; repeated OffEmb Canton 404, Shanghai 564. Department pass Peiping, Tientsin, Tokyo, Taipei for Merchant unnumbered.

STUART

693.119/5-1349 : Telegram

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

WASHINGTON, May 13, 1949—9 p. m.

285. Tel 88278 sent SCAP May 7, for your background information, refers R procedure which now applies Europe and requires license all US exports that area. 1A and 1B lists cover categories exports of greatest strategic importance. 1A list consists items many of which are direct military utility and are for most part embargoed to eastern Europe. 1B list consists capital goods of multi-purpose character subject quantitative restrictions of varying severity for eastern European countries. Most exports that are not on above lists now granted license automatically. Planning announce R procedure China, but intend that controls would be applied primarily prevent transshipment via China to USSR, eastern Europe and north Korea, and that embargoes and quantitative restrictions exports China would at least initially be less severe so long as evidence of reasonable presumption items intended use Chinese civilian economy.

Tel 88278 follows :

[Here follows text of telegram printed on page 977.]

ACHESON

693.9431/5-2749 : Telegram

*The Acting Secretary of State to the Consul General at Peiping (Clubb)*⁷⁵

WASHINGTON, May 27, 1949—5 p. m.

331. SCAP has responded Dept's proposals Deptel 285 May 13 to fol effect as regards role ConGens China: SCAP agrees desirability resumption active trade with China and utilization thereof to maximize benefits fon interests in China. Does not intend take initiative development Japan's trade with Commie China, and will use every opportunity channel info on commercial transactions through ConGens where expedient. Believes, however, that rigid limitation of trade negots through U.S. Consular channels undesirable because (1)

⁷⁵ Repeated to the Embassy in China as No. 645, to the Embassy Office at Canton as telCan No. 251, and to the Consulates General at Shanghai and Tientsin as Nos. 1070 and 119, respectively.

might drive trade into other channels and defeat objectives sought, (2) not practicable require info from ConGens on grounds short supply or competing demands unless these conditions actually exist, and (3) may be opposition by Allied Powers to exclusion their consular reps or private trading firms.

Dept agrees rigid procedure not desirable and had intended language proposed numbered para 5 Deptel 285 May 13⁷⁶ as elicitation Commie use ConGens rather than as exclusion direct negots between private firms in China with SCAP or private firms in Japan. Dept recognizes, however, that probably impractical expect SCAP divert trade negots to ConGens China when they have already been initiated directly with SCAP or private firms in Japan. Important, nevertheless, that you should capitalize inquiries already made ConGen Peiping with definite response and offer facilities. ConGen authorized, therefore, respond previous and subsequent inquiries as follows: SCAP willing consider specific trade arrangements; ConGen authorized transmit concrete proposals to SCAP and prepared facilitate handling initial negot.

Dept believes this position consistent SCAP's response. We intend point out to SCAP importance end-use info to exercise of controls over 1A and 1B list items, usefulness U.S. ConGens where this info necessary. Dept does not expect adverse reactions by powers, other than Soviet bloc, to SCAP's utilization U.S. ConGens for end-use info. Propriety use U.S. ConGens in China and elsewhere for SCAP's trade operations probably taken for granted, as indicated approaches already made ConGen Peiping.

WEBB

693.9431/5-3149 : Telegram

*The Acting Secretary of State to the Consul General at Peiping
(Clubb)*

WASHINGTON, May 31, 1949—8 p. m.

343. 1. SCAP has under consideration following transaction with firm obviously purchasing for consignees in Chinese Commie territory:

China Mutual Trading Company offers through Tokyo representative barter 15,000 metric tons soybeans at US \$126.50 per ton for about 3,000 metric tons copper wire of following gauges: 4 mm, 400 tons; 3.7 mm, 400 tons; 2.9 mm, 400 tons; 7 mm, 1,000 tons; balance consisting of rubber insulated wire and flexible electric cord. Total value of deal about US \$1,900,000 shipping destination of wire Yingkow, Manchuria. No information re consignee in China or end-use.

⁷⁶ For paragraph numbered 5, see telegram No. 88278, May 7, p. 977.

2. Fact that destination is Yingkow leads presumption wire destined for use Manchuria.

3. You should endeavor inform Commie officials above proposal has been made and that you requested obtain information re consignee, actual end-use and place of end-use. You may in your discretion indicate that in view apparent destination information would most appropriately come from US Consul General [at] Mukden who is in best position obtain and assess. You may also indicate that this information is necessary to consideration of the proposal.

4. For your information only, language of position in paragraph 3 drafted so as to make end-use information absolute prerequisite to consideration of trade proposal, but not necessarily to require that such information come from Consul General Mukden. Decision re importance to be attached to receipt of information from Consul General Mukden will depend upon variety of factors, including character Commie reaction, current status negotiations re Ward's withdrawal, reliability of information provided by alternative sources, etc.

5. For your information, Tientsin has been requested make similar check on other orders copper wire placed by A. C. Henning and Co. and Bryner and Co. Tientsin.

WEBB

693.9431/6-449 : Telegram*

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

SHANGHAI, June 4, 1949—11 a. m.

[Received June 6—9:23 a. m.]

1989. Consul General Shanghai cordially concurs undesirability rigid procedures, Deptel 331 to Peiping, repeated Shanghai 1070, May 27, but suggest frequent reference inquiries for specific purchases to Consulate Generals China (Deptel 343 to Peiping, repeated Shanghai 1087, May 31) even when directly initiated with SCAP or private firms Japan in order determine legitimacy end use.

On basis Consulate General's experience handling specific commerce positive list inquiries here, we question validity SCAP objections stated first paragraph Deptel cited. British, other foreign firms, accepted without question our local inquiries re end use for specific imports USA. We feel that it is important to bring home to Communists at every suitable opportunity situation which will clearly show them that they are seriously prejudicing their own interests by ignoring US Consulate Generals.

Regardless possibly fictitious character short supply or competitive demand arguments for individual purchases, we therefore believe end

use inquiries should be exploited. Whenever inquiries made by Communists direct or their behalf are serious, we doubt whether friendly end use inquiries in China would cool them off or divert trade other channels. Communists evidently very discriminating in types commodities they purchase abroad; we doubt if they would object reasonable end use inquiries and controls.

Pending development Communist trade exchange controls, banking regulations, tariff schedules expected soon here, Consul General suggests deferment application Eastern European export control procedures. If any publicity is to attend this move, Consulate believes it should be timed to coincide with some Communist move to which we can justifiably take exception, and not taken otherwise. In this way, Communists will be reminded, without our being committed to inimical action, that we have means of being disagreeable if they choose to be.

Consul General orally informed British Deputy Commissioner Customs that Customs being extensively consulted in formulation trade control tariff policies and that no changes in Customs tariff contemplated here during ensuing 10 days, leaving GATT⁷⁷ tariff rates unchanged. In view apparent Communist acceptance Customs' expert advice, Hinke is furnishing Customs with unsigned memo containing table Shanghai declared exports USA 1948, comparing regular tariff and GATT rates along lines Deptel 1070, May 27⁷⁸ as well as set UN⁷⁹ publications re GATT for Customs' use. Deputy Commissioner aware Chinese Customs representatives now at Ancey and hopeful Communists here will not abrogate GATT tariff rates.

Sent Department 1989; repeated Nanking 1089, OffEmb Canton 627, Peiping 164. Department pass Tientsin as 65.

CABOT

693.9431/6-449 : Telegram

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

PEIPING, June 4, 1949—2 p. m.

[Received June 4—3 : 54 a. m.]

937. ReDeptel 343, May 31. Memo on subject was handed Chang Tsung-ping yesterday enable him take up matter with Minister Industry Commerce today. Used following wording re channelization information.

"In view apparent destination the information re projected deal would normally, appropriately come from American Consulate Gen-

⁷⁷ General Agreement on Tariffs and Trade, signed at Geneva, October 30, 1947, Department of State, Treaties and Other International Acts Series No. 1700, or 61 Stat. pts. 5 and 6.

⁷⁸ See telegram No. 331, May 27, 5 p. m., to the Consul General at Peiping, p. 985.

⁷⁹ United Nations.

eral Mukden who would, of course, be in best position obtain and assess that information. That office, however, is being closed and may not be in position act in regard matter in point. The information may alternatively be given to this Consulate General for transmittal SCAP."

ReDeptel 201 [202⁸⁰], April 13, last paragraph. Believe that recent developments indicate more clearly than ever that Manchuria is progressively being brought more strictly under Soviet control, that whole area is being increasingly segregated from rest China, that administrative and trade relations between North China and Manchuria will probably be carried on only under unusual restrictions, that exports to Manchuria will largely be as desired and approved by Soviets and will assist tightening Soviet control over that area in varying degrees depending upon nature cargo, and that it is, therefore, highly desirable attempt channel bulk permitted exports to Communist areas North China rather than Manchuria. Prohibition all exports Manchuria, however, seems not desirable this stage when situation uncrystallized. This office hopes in near future be able expand this comment.

Sent Department; repeated Nanking 617. OffEmb Canton 146, Shanghai 625.

CLUBB

693.9431/6-449 : Telegram

*The Acting Secretary of State to the Consul General at Peiping
(Clubb)*

WASHINGTON, June 15, 1949—6 p. m.

370. Your reference closure Mukden office and alternative provision info ConGen Peiping may be interpreted by Commies as indicating such alternative equally acceptable (Peiping's 937 June 4). Although Dept did not envisage position that receipt info from ConGen Mukden absolute prerequisite, it wished convey suggestion that, unless info received this source, adequate basis might not exist for SCAP's consideration proposed transaction. (Deptel 343 May 31). Dept entertains no optimism that this tactic would now reverse Commie treatment Ward, but believes that importance ConGens role in reporting info necessary facilitate trade should be demonstrated to Commies wherever possible without appearing use trade as open leverage political concessions.

Dept not suggesting you take obvious initiative correct possible misconstruction your note Chang (ConGen's reftel) since this might appear indicate undue interest Sino-Jap trade or be construed political

⁸⁰ *Post*, p. 1006.

maneuver designed retain Ward [in] Mukden. However, if appropriate opportunity presented suggest you state following to Chang in sense afterthought your note :

“While you willing transmit SCAP any end-use info submitted, you doubt that it would provide nearly as much basis for favorable action as would provision info directly by ConGen in area intended utilization Jap exports; that, in either event, assessment reliability info would depend, in part, on its being submitted by ultimate consignee and substantiated by Commie officials; that, if latter interested in expediting proposed China Mutual transaction they should themselves present info directly to appropriate US ConGens.”⁸¹

WEBB

693.9431/6-2049 : Telegram

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

SHANGHAI, June 20, 1949.

[RECEIVED June 20—8:38 p. m.]

2358. Trade Bureau,⁸² Shanghai, announced postponement promulgation regulations governing trade Japan June 18 giving as reason “to [no] formal diplomatic relations foreign countries”.

For merchants with unused deposits Japan, Trade Bureau planning permit exports in accordance regulations for importing with private foreign exchange. For contracts signed pre-takeover but goods undelivered Japan, Trade Bureau advised suspension shipments.

Sent Department 2358, repeated Nanking 1254, Canton 749, SCAP Tokyo 147.

CABOT

693.9431/6-349 : Telegram

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

WASHINGTON, June 21, 1949—4 p. m.

381. Question arrangements dispatch private trade delegation Japan referred SCAP (ur 929 June 3⁸³). Urinfo Dept doubts possibility SCAP receive representatives local regime in any official capacity should they desire proceed Japan,⁸⁴ and no encouragement shld be given inquiry this regard.

⁸¹ In telegram No. 1115, July 2, noon, the Consul General at Peiping reported he had taken “occasion [to] present him (Chang) afterthought set forth second paragraph Department reference telegram (No. 370) incorporating it in written memorandum handed him.” (693.9431/7-249)

⁸² Organ of Chinese Communist Military Control Commission.

⁸³ Not printed.

⁸⁴ In telegram No. 235, July 6, the Counselor of Mission in Japan (Huston) reported that “SCAP does not consider appropriate at this time entry into Japan

In this connection, suggest you indicate Chang Tsung-ping availability your facilities for making prelim inquiry of SCAP concrete trade proposals; and that such approach might avoid waste motion since it would provide SCAP better basis on which to assess feasibility engage trade negots direct with trade mission.

WEBB

693.9431/6-949 : Telegram

*The Secretary of State to the Consul General at Tientsin (Smyth)*⁸⁵

WASHINGTON, July 6, 1949—5 p. m.

174. SCAP has been authorized approve (Deptel 121 May 27 and urtel 396 June 7⁸⁶) sale 1300 metric tons 4 mm copper wire to A. C. Henning and Company and Bryner and Company subject contracts approved by SCAP. Not known here as yet whether these contracts have finally been closed.

Request you keep in touch with firms in Tientsin and report arrival goods and ultimate destination and end-use if ascertainable. You should not betray knowledge that sale this copper to North China by Japan has been approved, or that it was referred to Washington for approval.

For your information, end-use information obtained by SCAP direct indicates wire to be used communications along Tientsin-Pukow railway. Request you and Peiping keep Department currently informed state of telecommunications North China, with appropriate indication rehabilitation and extensions.

ACHESON

693.9431/7-949 : Telegram

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

PEIPING, July 9, 1949—10 a. m.

[Received July 9—8:02 a. m.]

1148.ReDeptel unnumbered July 6, 9 a. m., Contel 1130, July 7.⁸⁸
Am informing prospective traders travel disapproved.

either of mission accompanied by representatives of Chinese Communist regime or of mission without such representatives but comprised of Chinese nationals not officially sponsored by Chinese Mission Tokyo" and that SCAP "has under consideration several trial deals involving trade with North China which, it is expected, will afford an indication as to pattern subsequent deals might take."⁸⁷ (693.9431/7-649)

⁸⁵ Repeated to the Consulate General at Peiping as No. 415, and to the Political Adviser in Japan as No. 313.

⁸⁶ Neither printed.

Chin Ting-chih yesterday expressed opinion refusal grant permits would constitute setback project for restoration trade, noting that Minister Industry Commerce Yao had been unoptimistic prospects in first instance and this would constitute confirmation his original belief American authorities would not permit such trade.

Note for purposes record travelers did not constitute "trade mission sponsored by Chinese Communist regime" in technical sense but were instead several non-official individuals representing private business concerns interested in trading for purposes profit. In existing circumstances trade would, of course, have to have approval Communist authorities and trade products contemplated for sale Japan were in fact to be supplied by Communists' official organs.

Chin commented that North China authorities would conclude that altho SCAP prepared give approval in principle restoration trade it was nevertheless unprepared see trade restored in fact. SCAP trial trade deals with North China if successful would, of course, in part counteract such Communist deductions but invite attention Dept desirability restoration China-Japan trade acting in manner incidentally to strengthen position Consulates this area.

CLUBB

693.0031 Manchuria/7-949 : Telegram

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

PEIPING, July 9, 1949—11 a. m.

[Received July 9—8:36 a. m.]

1150. ReDeptel 202, April 13,⁸⁹ Contels 937, June 4, 1130, June 7.⁹⁰ Express opinion that Manchuria should be viewed in category closer Poland than Yugoslavia and trade policies be formulated accordingly. Presume on that basis selected trade permissible. Opine such limited trade desirable in effort feed fires Titoism⁹¹ which can be considered naturally smouldering. Indications this early are that China, Manchuria dissatisfied with both quality and quantity Soviet deliveries, and aware limitation Sino-Soviet trade, while possibly appreciative as well political implications for them of all knitting closer ties between Manchuria and USSR. While small minority Manchurian Communists favor that development, spirit nationalism undoubtedly remains strong with majority.

Where availability Japan's [exports] imposes natural limits on exports China, however, would recommend favoring North China

⁸⁹ *Post*, p. 1006.

⁹⁰ No. 1130 not printed.

⁹¹ Marshal Josip Broz Tito, head of Yugoslav Communist Party and State, broke with Moscow in June 1948.

over Manchuria, there being more hope of successfully combatting Soviet influence in China proper than in peripheral areas including Manchuria.

Sent Dept 1150, repeated Nanking 819, OffEmb Canton 208, Shanghai 774, Dept pass Tientsin 74.

CLUBB

693.9431/7-2149 : Telegram

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

WASHINGTON, July 30, 1949—4 p. m.

507. Dept has reviewed (urtels 1130 July 7; 1148 July 9; 1223 July 21; unnumbered [1221] July 21, 4 pm⁹²) your series tels re Sino-Jap trade. Appears two different groups interested making proposals to SCAP: (1) San Yang-Yung Sheng group, which claims have letters commitment from Manchurian regime (urtel 1063 June 23 [22]⁹³), and (2) Yuan Tung Development Co, which proposes trade behalf North China regime but has no definite contract or agreement (urtel 1223 July 21). Your unnumbered [1221] July 21, 4 pm indicates San Yang financially weak, reliability unknown, due circumspection required. Your 1063 June 23 reports info Yuan Tung North China affiliate Wah Chang Corp, New York.

In view uncertain status these two groups Dept unwilling suggest to SCAP that he regard their offers seriously. Dept fears large number firms have been attempting enter this trade without firm contracts or offers from either side, hoping obtain commitments from one side in order obtain orders from other, and believes SCAP correct in adopting cautious attitude.

This connection, request your evaluation info re China Mutual Trading Co supplied by these contacts. Dept believes possible they may have been deliberately trying prevent deal; quite possible of course China Mutual itself playing same game, trying get commitment from SCAP in order obtain contract from Manchurian regime.

Re travel to Japan (urtels 1148 July 9; 1223 July 21 and unnumbered [1221] July 21, 4 pm) Dept cannot urge SCAP approve entry. Dept understands under long-standing policy foreign businessmen entering Japan for commercial reasons must be sponsored by respective govt missions; in circumstances SCAP cld not approve entry without sponsorship of Chi Mission. Dept willing consider suggesting to SCAP alternative means contact and negotiation, but prerequisite is some clarification applicants' status and assurance seriousness their offers.

⁹² Nos. 1130, 1223, and 1221 not printed.

⁹³ Not printed.

How they can give such assurances problem for them, but you shld be satisfied their offers legitimate and firm, their ability to complete any transaction entered into reasonably certain. Suggest you convey to them substance this para.

Re Yuan Tung and its connection with Wah Chang, Dept will investigate. This connection, info from Hong Kong indicates a Yuan Tung Steamship Co of that place is agent for ships now engaged trade with Tientsin and Yingkow from Hong Kong. Any info you can discreetly obtain re possible connection North China Yuan Tung this firm will be helpful.

ACHESON

693.9431/8-1849 : Telegram

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

PEIPING, August 18, 1949—9 a. m.
[Received August 27—4:18 a. m.]

1380. ReDeptel 507, July 30. Communicated substance authorized information interested parties as directed.

Note San Yang Company has supplied office with copies document from Manchurian authorities authorizing them trade in Manchurian products, that direct contacts between two sides still unestablished. Consulate unable in existing circumstances determine ability San Yang meet contractual obligations which still non-existent excepting in barest outline. Believe that as indicated third paragraph Deptel 265, May 8, in principle details of commercial deals had best be worked out between concerned parties without intervention Consulates. Reftel July 30 states Department is prepared to suggest SCAP alternative means contact and negotiate. Consulate, of course, prepared endeavor clarify applicant's status, or seriousness applicant's offer, in any particular respect desired by SCAP for interested business contact Japan, but believe that in case San Yang matter had advanced sufficiently to warrant direct contact and negotiations with responsibility for commercial contracts to be that of two parties directly concerned.

Tokyo representative is Li Tse-min, General Manager Peiping office San Yang Company, address care Tajeoya Madaeutyo Made, Yamaman Products Company, Tokio-to, Daita-ku, Araiuku 2-1621.

San Yang now offers for export to Japan from either Yingkow or Tientsin products listed following telegram Peiping numbered series.⁹⁴ Quantities unlimited. Various standard grades according demand.

⁹⁴ No. 1381, August 17; it reported products comprised soy beans and derivatives, peanuts, other beans, coarse salt, sheep and camel wool, animal bone, raw ginger, cow suet, magnesite, talc, soap stone powder, soda ash, coking and non-coking coal, pig iron and cotton seed brand (600.939/8-1749).

States can obtain documents from North China Trading Company similar type those obtained Northeast Export Company. Plans purchase articles Japan for import China with proceeds deal and desires negotiation on basis c.i.f. Yokohama and Tientsin prices respectively for exports and imports. Proposes ship by any means available.

Please instruct.

Sent Department, repeated US PolAd Tokyo.

CLUBB

693.9431/9-849 : Telegram

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

PEIPING, September 8, 1949—11 a. m.

[Received September 8—6:53 a. m.]

1499. ReContel 1380, August 18 (sent only August 27 due oversight). Consulate in receipt SCAP inquiry August 30 re offer coking coal for future reference. San Yang has been requested supply information.

SCAP inquiry report availability answered reftel.

San Yang asks that if feasible there be designated American, Japanese or other foreign company, Tokyo with whom they could get in touch re proffered sale Manchurian-North China products.

In view approval in principle restoration Sino-Japanese trade and since as indicated reftel best procedure seems be through giving opportunity direct contact between concerned parties, request seems reasonable.

Sent Dept, repeated AmPolAd Tokyo.

CLUBB

693.9431/9-849 : Telegram

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

WASHINGTON, September 19, 1949—6 p. m.

646. Your 1380 Aug. 18 and 1499 Sept 8 relayed to SCAP. Suggest you advise San Yang conduct further negots this matter direct through its Tokyo rep, being careful point out your inability advise re possibility successful outcome and emphasize fact ultimate decision must be made by Jap suppliers and SCAP. It wld be inappropriate for SCAP to designate specific firms with which San Yang shld deal and company's rep Tokyo shld be in position make own decision. Any fon businessman in Japan may approach any firm without special permission.

While you may continue offer services as means communication for SCAP and company to clarify particular points you shld require

company use normal public facilities in communicating with its Tokyo agent.

ACHESON

693.9431/11-1649

Memorandum by the Deputy Assistant Secretary of State for Far Eastern Affairs (Merchant) to the Secretary of State

[WASHINGTON,] 16 November 1949.

1. It is recommended that you secure the approval of the President for the despatch to SCAP of the attached message⁹⁵ and for the concomitant action outlined in paragraph 4 which is calculated to place pressure upon Chinese Communist authorities to release from detention of Consul General Ward and his staff, Smith and Bender, the U.S. Navy personnel detained incommunicado since October 1948.⁹⁶ The following considerations support my recommendation.

2. On 8 November Consulate General Shanghai outlined to the Department⁹⁷ and to SCAP Chinese Communist interest in importing 60,000 tons of steel rails and 10,000 tons of spikes, fishplates, etc. from Japan, probably for use in intra-mural China, for which payment would be made in coking coal, salt, iron, and soy beans. (Annex A⁹⁵)

3. SCAP has indicated strong interest in the transaction and has requested policy guidance. (Annex B⁹⁵).

4. The recommended reply to SCAP is at Annex C.⁹⁵ No objection is offered to initiation of negotiations providing Washington is informed of details before firm commitment is given and providing SCAP can prolong negotiations while approaches are being made through Shanghai and Peking to indicate indirectly to Chinese Communist officials that so long as Ward and his staff, Smith and Bender are held prisoners in China, it would seem most improbable that these trade talks could come to a satisfactory conclusion.

5. The actions proposed in paragraph 4 would carry, at this time, only limited leverage. ConGen's Shanghai and Peking would hint at the prospect of reprisals. Their hints would be supported by nothing explicit in SCAP's action, but only by his inaction. An explicit threat is not being lodged because to render this threat meaningful, we should be fully prepared, if necessary, to go far beyond proposition involved in this case and carry through with a range of sweeping measures of economic warfare, including import and export embargoes and the blocking of Chinese funds in this country. The proposed course of

⁹⁵ Not printed.

⁹⁶ See footnote 31, vol. VIII, "Political and military situation in China", chapter V.

⁹⁷ In telegram No. 4715, November 8, 4 p. m., not printed.

action makes no final commitment that this step, though contemplated, will be taken.

6. Although it is legally within our power to apply drastic economic counter measures, it is only proper that we should assess their full implications. Action of this scope and severity, if applied to both Japanese and U.S. economic relations with China, would undoubtedly hurt Communist China, but in view of the alternative trade outlets available to the Chinese Communists with the United Kingdom and Western Europe and other parts of the world, it is unlikely that action by the U.S. Government and SCAP alone would represent a crippling blow at the Chinese Communist regime. It is of course clear that we could not expect the support of any other major Western nation for a program of economic warfare against China.

It is very difficult, if not impossible, to foresee whether such action would have any beneficial effects with respect to Ward, Smith and Bender, since the Chinese Communist reaction might well be one of increased enmity rather than conciliation. Once applied, it would be difficult, if not impossible, for the U.S. quickly to regain freedom of maneuver and U.S.-Chinese relations might be expected to develop on an increasingly hostile basis for a considerable period of time.

As General MacArthur himself has pointed out, consummation of this particular trade transaction could lead to important Sino-Japanese trade which would be very beneficial to the Japanese economy and would save a substantial outlay of appropriated U.S. dollars. Loss of these advantages, however, may be of less importance than the fact that the Japanese business community has come to believe that Japan's self-support as an independent nation cannot be achieved without restoration of trade with China. They would regard U.S. intervention to deny them the prospect of that trade as arbitrary, and might see in it the disturbing suggestion that there is no true identity in the interests of the U.S. and Japan.

7. Despite these considerations, the issues underlying the Ward-Smith-Bender cases may prove to involve U.S. national interests of sufficient importance to justify the conclusion that overt pressure by the U.S. Government is necessary and that economic reprisals represent the only recourse open to us in the circumstances. The message to SCAP and the actions that it is proposed ConGen's Shanghai and Peking should take are intended to indicate, without final commitment on our part or explicit threat to the Communists, that that possibility is being seriously contemplated.

8. We are proceeding to explore in consultation with other interested departments of the Government the practical possibilities for instituting effective economic counter measures and the policy implications of such action both with regard to the China and Far Eastern situation

and with respect to the general commercial and financial policies of this Government.

693.9431/11-1649

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) to the Assistant Secretary of State for Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 16, 1949.

E⁹⁹ has been asked for clearance of a memorandum¹ which proposes that a possible trade transaction between the Chinese Communists and Japan be used by the United States Government to apply leverage on the Chinese Communists to release Mr. Ward, Consul General at Mukden, and Messrs. Smith and Bender, held by the Communists for more than a year. Our comments are as follows:

1. The proposed transaction in trade involves the purchase of steel rails and accessories (class 1-B) from Japan by the Communists in exchange for soy beans and other goods which are in demand in Japan. General MacArthur has recommended that the transaction be approved. On its merits, the proposed arrangement appears satisfactory from the standpoint of the Japanese economy, and its consummation would not violate our principles governing trade with Communist controlled areas.

2. The relevant documents which set forth United States policy in this field, NSC 41,² and the recent report on NSC 41 which was filed by the Department,³ indicate that the transaction should be approved. They also indicate that it is not appropriate to use trade controls or transactions to solve incidents or points at issue in non-economic fields between the United States and the Chinese Communists. Thus the proposal in the FE memorandum seems contrary to NSC 41 and to the report on it.

3. The amount of leverage furnished by the trade proposal is very limited. There are other sources for steel rails which we do not control, and the countries which might sell them would not refrain from such sales if we requested it. There are also other markets for soybeans and other goods the Communists offer. If the transaction is not undertaken, the trade will not be prevented.

4. If the transaction were to be used in the manner proposed, the United States would be in a quandary if the Communists refused to

⁹⁹ The Assistant Secretary of State for Economic Affairs.

¹ *Supra.*

² February 28, p. 826.

³ November 7, p. 890.

release the three Americans. We would then face the alternatives of (1) dropping the use of trade as a lever, by which we would lose face, and admitting we wanted the trade, or (2) increasing economic pressure by other means.

5. Increasing economic pressure would obtain no support from other countries, would shut off business which would be taken by competing commercial interests, and would be ineffective in impairing the Chinese Communist economy. It would also mean increased pressure upon the Japanese economy, and increased costs for the American taxpayer. We lack legislative authority to impose import controls. Freezing funds can be arranged, but in the absence of cooperation from other countries its effect is zero. In general, there is not much we can do to increase economic pressure upon China, and any measures we took would in final effect be futile. They would also not necessarily obtain the release of our people.

6. Our general policy in the use of trade controls in Europe does not extend beyond the security concept of keeping important goods away from potential enemies. We have recognized over a long period of time that such controls are not adapted to use for bargaining purposes in any field, because a concession in such controls is necessary if anything is to be gained, and because our national security interests do not warrant the concession. Also, we cannot defend our position in public if we use trade for political purposes, or act in a manner which appears capricious to other nations.

7. As we understand it, SCAP is an allied authority, not a United States agency. As an allied authority, SCAP can presumably be called to account for its trade policies. It will be difficult enough to arrange for essential security controls. It will be much more difficult to use trade controls for the purpose of extricating United States personnel from the clutches of the Communists in China, and it would be extremely hard to explain why we are jeopardizing Japanese rehabilitation.

8. The case of the imprisoned Americans is a difficult one indeed, and obviously something should be done to get them out. Trade controls seem inappropriate and ineffective as a means, and we therefore urge that they not be used. The use of them might as a matter of fact exacerbate the situation, and the Communists might seize more Americans so as to improve their terms of trade. It is hard to see where such a course would end, except in disaster.

9. Similar proposals have been made with respect to Americans taken into custody by the Czechs and the Russians in Germany. The methods proposed, in the economic field, were not undertaken; other measures produced the release of the people.

693.9431/12-949

*The Acting Political Adviser in Japan (Sebald) to the Secretary
of State*

No. 863

Tokyo, December 9, 1949.
[Received December 19.]

I have the honor to refer to this Mission's despatch no. 727 of October 20, 1949,⁴ entitled "Transmission of Memorandum Summarizing Japan's trade with Communist [North] China," and to enclose a copy of a memorandum dated December 5, 1949,⁴ on the subject "Summary of Trade with Communist China from 1 May to 30 November 1949". As in the case of previous memoranda submitted to the Department on this subject, the present memorandum was prepared by Colonel Ralph J. Mitchell, recently appointed Chief of the Trade Controls Section, Foreign Trade and Commerce Division, Economic and Scientific Section (ESS), General headquarters, SCAP. Colonel Mitchell is directly concerned with supervision of Occupied Japan's trade with Communist China and with the USSR.

According to this statement, during the period under review contracts have been closed, with settlement to be made by dollar letter of credit, for shipment from Japan of commodities valued at \$1,599,-863.02. Of interest are the contracts providing for shipment of certain chemicals to Communist China, these being new contracts signed during November. The dollar total of all contracts represents an increase of \$996,648.08, equal to 165 per cent, over the amount reported by ESS as of October 1, 1949.

Contracts for acquisition of Chinese products on an exchange of goods basis had an aggregate value of \$13,634,060 as of November 30, 1949, this total showing an increase of \$4,728,110, equal to 54 per cent, from the amount reported as of October 1, 1949. In addition to new contracts for soya beans, new contracts were signed during the period from October 1 to November 30 for greasy raw wool, rapeseed, green or white ramie fiber, and steamed bone meal. During November, it will be noted, that Japan received from North China a shipment of nearly 5,000 metric tons soya beans at a value of approximately \$500,-000; the freighter on its return trip carried to North China \$389,230 worth of such Japanese products as mild metal products, including galvanized sheets and mild sheet and plate.

In addition to the contracts listed in the enclosed memorandum, ESS has received a large number of proposals made by local traders and involving mainly durable goods of considerable variety, including

⁴ Not printed.

railway supplies and equipment, copper products, heavy machinery especially for public utilities, boiler tubes, merchant and fishing vessels, et cetera. A number of these proposals have been submitted by ESS to the Department of the Army for consideration by the concerned United States Government agencies.

Special attention is invited to paragraph 4 of the comments contained in the memorandum. Colonel Mitchell points out that:

“From the information available to us to date we may safely assume that there will be a rather direct relationship between a more liberal application of the restrictions of the 1-B list controls and the ability of trading firms to supply the raw products of Communist China to Japan under the contracts already signed as well as under contracts that may be signed later. In the case of many consumer goods not subject to restrictions or quantitative control import licenses for Communist China cannot be obtained. Durable goods for reconstruction and rehabilitation are the primary interest there and import licenses for them, it appears, will be more freely granted. By the same token it may be anticipated that the release of Communist China products will be more freely made against such purchases.”

General Headquarters is now awaiting a reply from the Department of the Army to its telegram sent to Washington on December 6, a copy of which was forwarded (as enclosure no. 2) with this Mission's despatch no. 821 of November 26, 1949,⁵ entitled “Control by General Headquarters, SCAP, of Exports from Japan to Communist China, Manchuria and North Korea.” This telegram stated in part that “until now strict adherence to U.S. policy and procedures for processing requests for 1-B items have constituted effective obstacles to Japan's entry on a competitive basis into Communist China trade. In the absence of simplified procedures as contemplated . . .⁶ considered here to be imperative that SCAP exercise broader discretionary authority on offers originating in that area, being guided, of course, by broad U.S. policy.”⁷

Respectfully yours,

For the Acting Political Adviser

CARL H. BOEHRINGER

Economic Counselor

⁵ Neither printed.

⁶ Omission indicated in the source text.

⁷ On December 13, in a telephone conversation with Colonel Love of the Office of the Under Secretary of Defense and with Stephen C. Brown of the Division of Chinese Affairs, Robert W. Barnett of the latter Division indicated the Department's position was, “while continuing to prohibit 1A exports, MacArthur should, in due course, be given pretty wide discretion in handling all other trade with China, and that in general Japan should not be required to impose any greater restrictions on the export of 1B items than were imposed by her competitors (e.g., the UK).” He also expressed his feeling that the “Department would be very glad to see and give consideration to a draft telegram more or less accepting” SCAP's proposals (693.9431/12-1349).

IV. EFFORTS BY THE UNITED STATES TO ESTABLISH CONTROLS WHICH WOULD LIMIT SHIPMENTS OF PETROLEUM PRODUCTS TO COMMUNIST-OCCUPIED CHINA⁸

893.6363/2-1149 : Telegram

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

WASHINGTON, February 11, 1949—6 p. m.

260. As tentatively indicated in exploratory discussions (Deptel 2282, Dec 30⁹) oil cos have been informed Dept agreed desirable if cos were to limit petroleum stock Shanghai not exceed supply 6 weeks bulk, 6 months packaged goods. Cooperation British Emb requested with view concurrent action Shell.

ACHESON

893.6363/3-2449 : Telegram

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

SHANGHAI, March 24, 1949—10 a. m.
[Received March 23—10:49 p. m.]

982. ConGen told first feeler negotiate 20,000 drums kerosene delivery Tientsin received unidentified Communist go-between Shanghai and referred home offices Standard-Vacuum, Texas, Shell.

ConGen orally asking local oil companies for information this subject as details become available to coordinate information Communist trade policy toward foreign firms.

Would appreciate Department's views such transactions in view substantial amount involved and category of oil sought.

Sent Department 982; repeated Nanking 578.

CABOT

893.6363/3-2449 : Telegram

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

WASHINGTON, April 1, 1949—11 a. m.

573. Dept has recently had to consider question supplies petroleum products to Communist-held areas from Hong Kong (urtel 982 Mar 24). Caltex Hong Kong had recd inquiries for 30,000 bbls kerosene and equal quantity mogas¹⁰ from sources believed represent Communists, shipment north to undisclosed destination but believed North China or Manchuria. Reports from ConGen Hong Kong indicate both

⁸ For previous correspondence regarding curtailment of oil stocks in China, see *Foreign Relations*, 1948, vol. VIII, pp. 275 ff.

⁹ *Ibid.*, p. 289.

¹⁰ Motor gasoline.

Shell and Caltex adopted initial policy refusing sell to such inquirers but Stan-Vac accepted business, maintaining question export to northern destination one between exporter and Hong Kong Govt. Shell felt compelled conform its policy Stan-Vac's, but Caltex refused go along and recently inquired of Dept its attitude.

Dept has informally told both Caltex and Stan-Vac it does not oppose sales kerosene and mogas destined Communist areas China but hopes cos will keep quantities minimum. Dept also informed them it hopes they will discourage far as possible sales or shipments North Korea. Shell has been given same info informal basis, and Dept intends discuss question soonest with Brit to reach formal agreement, after which matter will be discussed more detail with cos.

For your background info Dept believes it desirable (1) cos continue supply Commies sufficient keep them coming back for more, and avoid charges embargo which might lead retaliation American interests. Commie areas (2) quantities supplied not exceed, and preferably be somewhat below, what cos estimate as normal requirements civilian uses, excluding Commies mil requirements or possibility stockpiling or transshipment (3) cos use their bargaining power these deals to reestablish their distributing organizations North China and if possible Manchuria, but avoid any implication of official US policy in this attempt (4) products supplied under above policy exclude avgas¹¹ or other products specially adapted mil uses (5) so far as cos can control sales they discourage shipments any products North Korea. Dept will suggest this line to Brit.

Difficulty tracing final destination trade moving in indirect channels via Hong Kong or North Korea makes it preferable in Dept's eyes sales and shipments Commie areas China be made direct, but Dept not in position publicly encourage this. Considerations of consignee reliability and info re end-use also make it desirable that wherever possible petroleum products be distributed by cos themselves, and hence Dept wld like see cos reestablished North China but cannot publicly encourage such move.

ACHESON.

893.6363/4-449 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, April 4, 1949—2 p. m.
[Received April 6—7:17 a. m.]

201. ReContel 192, April 1,¹² regarding oil situation. White, manager Texas Company, and Frost, of Shell Company, informed me today they have completed separate checks on Soviet gasoline obtained

¹¹ Aviation gasoline.

¹² Not printed.

from Soviets by Communists on barter basis which has arrived this area. They place amounts as follows: February, 12 railway tank cars of 30 tons each; March, 120 cars, total Soviet gas for 2 months nearly 4000 tons. Cars came by rail from Harbin and all destined for Lin Piao's¹³ army.

Former China Petroleum Company installation at Hsinho, near Tangku, has been taken over by supply section of Northeast Field Army (Lin Piao).

White and Frost would appreciate above information being conveyed to Texas and Shell Company offices in Shanghai, also Texas Company in New York.

White and Frost state they have no indication of future policy of US and British Governments as to oil shipments to Communist areas in China. They say such information would be most helpful and would appreciate receiving some indication companies if this can be done.

Repeated Nanking 126, Shanghai 127, Peiping 80 and Hong Kong.
[SMYTH]

611.9331/4-749

*Memorandum of Conversation, by Mr. John W. McBride of the
Petroleum Division*

[WASHINGTON,] April 7, 1949.

Participants: Mr. J. R. Keany—Caltex
Mr. H. F. Seitz, Mr. Tripp, Stanvac
Mr. J. K. Evans, Shell
Mr. Stull, OIT,¹⁴ Commerce
Mr. Freeman, Mr. Magill—CA¹⁵
Mr. Williams—NA¹⁶
Mr. Brown—CP¹⁷
Mr. Eakens,¹⁸ Mr. McBride—PED

Mr. Eakens indicated that the meeting was called for the purpose of informing the oil companies of the Department's position with reference to the sale of petroleum products in North China and North Korea. He stated that the Department's views regarding such sales were as follows:

1. The Department does not oppose the sale of petroleum products to Communist controlled North China.

¹³ Chinese Communist commander in north China.

¹⁴ Office of International Trade.

¹⁵ Fulton Freeman, Assistant Chief of the Division of Chinese Affairs, and Robert N. Magill, of the same Division.

¹⁶ John Z. Williams of the Division of Northeast Asian Affairs.

¹⁷ Stephen C. Brown of the Division of Commercial Policy.

¹⁸ Robert H. S. Eakens, Chief of the Petroleum Division.

2. The Department prefers, however, that such sales be restricted to the quantities that are required for minimum civilian consumption to avoid the danger of stockpiling or diversion for military uses.

3. Furthermore, the Department considers it preferable that such petroleum products as may move into the Communist controlled areas be handled by the companies directly, although it cannot officially acknowledge or promote this position. Direct sales have the advantage of providing better controls and more accurate information. They should also serve to improve the companies' bargaining position so far as the reestablishment of relatively normal channels of business are concerned.

4. In the absence of any commercial airline operations in the area, the Department suggests that additional aviation gas not be shipped in and that sales be made only from existing stocks.

5. The Department suggests that the companies follow a restrictive policy with respect to any petroleum sales destined for North Korea. A limited trade with this area seems justified, however, since it may provide South Korea with some of the items that it needs very badly such as commercial fertilizers.

6. The Department is continuing its study of the lube oil problem but, in the absence of effective controls over exports from the United States, does not feel justified at the present time in requesting anything more than that the companies pursue a conservative policy.

Mr. Seitz observed that his company is not opposed to controls on the export of lube oils to areas where controls can be justified, but feels that putting lubes on the positive list would require a lot of unnecessary clerical work for shipments to "non-suspect" areas. Mr. Stull stated that lubricants probably are the most effective weapon under the control of the United States for winning a cold war, as well as a "shooting war". Mr. Evans commented that spot controls were ineffective for such items as lubricants since the demand that is blocked in one area can readily be shifted to another uncontrolled market.

Mr. Williams pointed out that the United States' objective in Korea included reuniting the northern and the southern sections and suggested that this goal might be furthered if the petroleum requirements for North Korea were channeled through Kosco, the oil companies' distributing organization in South Korea. He felt that a three cornered trade through Hong Kong was much less desirable than direct trade between the two sections of Korea. In response to Mr. Eakens' inquiry regarding possible limitations on the use of ECA¹⁹ funds for such objectives, Mr. Williams stated that an exchange of this sort would have the effect of reducing the total cost of the program, particularly if such items as fertilizer could be obtained, and that final control would rest with the Administrator.

Mr. Seitz wanted to know whether the oil companies should take the initiative in the distribution program. Mr. Brown indicated that it

¹⁹ Economic Cooperation Administration.

was the Department's understanding that the Communists had already come to the companies to obtain additional supplies. This raised the question of coordination which was given only limited consideration. Although the details might need to be worked out, it was reasonably clear that the companies would be willing to allocate the minimum requirements for North China on an equitable basis among themselves.

Mr. Evans indicated that his company still had its full force of employees in Tientsin. Mr. Keany confirmed the fact that his company still has two representatives in Tientsin, and Mr. Seitz stated that Standard-Vacuum is ready and willing to send its representatives back to Tientsin as soon as the details can be arranged with the Communists.

Mr. Brown commented on the fact that the uncertainties about the whole situation made it difficult to chart a definite course and suggested that the companies would have to "feel their way" during the initial stages until the reestablishment of their distributing organizations provided them with more information regarding Communist requirements.

With reference to the oil company stocks in Tientsin, Mr. Eakens urged that those currently held be released sparingly and that the policy with respect to replenishments be directed to the objective of maintaining the Communists' dependence on the oil companies for continued supplies. He suggested that the companies use their 1948 sales as a rough measure of the upper limits for their 1949 distribution in the same areas.

893.6363/4-449 : Telegram

*The Secretary of State to the Consul General at Peiping (Clubb)*²⁰

WASHINGTON, April 13, 1949—1 p. m.

202. For Tientsin 71. Dept has discussed with Brit and cos here question petroleum shipments (urtel 201 Apr 4) Communist areas No China Manchuria and Korea. Fol is position recommended cos and agreed to: (1) cos should continue supply Commies sufficient keep them coming back for more and avoid charges embargo possibly leading retaliation US Brit interests Commie areas (2) quantities supplied should not exceed and preferably be somewhat below cos estimate normal civilian requirements, excluding Commie mil requirements and possibility stockpiling or transshipment (3) cos use bargaining power these deals reestablish distributing organizations No China and if possible Manchuria, but avoid any implication official US policy (4) products supplied exclude avgas for present or other

²⁰ Repeated to the Embassy in China as No. 455 and to consular posts at Canton as telCan No. 84, Hong Kong as No. 241, Seoul as No. 238, and Shanghai as No. 646.

products specially adapted mil uses (5) cos use own discretion re disposition stocks already No China, but try follow conservative policy in releases for consumption. Re North Korea, Dept desires shipments any products be discouraged except so far as they result South Korea acquisition from that region valuable products (e.g. fertilizers) in return, and suggested cos that shipments North Korea be handled by distributing organizations South Korea if possible.

In general Dept desires shipments sales Commie areas China be made direct rather than via Hong Kong or North Korea, due difficulty tracing final destination trade moving indirect channels, but Dept not now in position publicly encourage this. Considerations consignee reliability and info re end-use also make it desirable cos themselves distribute products wherever possible and hence Dept desires see distributing organizations reestablished but again cannot publicly encourage such move.

This connection Dept requests comment on feasibility wisdom, in formulating general export control policy, attempting channel bulk permitted exports to Commie areas to North China rather than Manchuria, in view probability Commies latter area more under thumb Russians.

ACHESON

893.6363/4-1849 : Telegram

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

SHANGHAI, April 18, 1949—5 p. m.

[Received April 18—6:55 a. m.]

1231. Oil companies Shanghai now following general policies outlined Deptel 646, April 13.²¹ Companies refusing bulk sales third parties Hong Kong in order handle themselves and limit sales. Companies direct business North China delayed lack import permits and foreign exchange required prior Hong Kong shipment. Companies do not know where cargoes go on Hong Kong sales but no declarations for North Korea expected as buyers cannot obtain refund Hong Kong consumption tax on North Korea and deliveries.

Lower freight handling charges on bulk deliveries from Hong Kong afford automatic price differential over cost deliveries in drums which companies hope will encourage direct distribution via own facilities North China.

StanVac head office believes US company tanker inadvisable due possible adverse public press reactions USA and now exploring feasibility US British tanker owned by Molleross Company. If tanker

²¹ See No. 202, *supra*.

shipment made companies will require small tanker handle discharge Taku Bar to companies tank farms. Companies doubt Commie ability finance tanker deliveries and companies unwilling lay in stocks Tientsin without advance payment for present—placing North China, Manchuria on hand to mouth existence for hydrocarbon oils.

In view above circumstances, companies and ConGen doubt feasibility wisdom for present interfering with current Hong Kong sales which Commies might regard as embargo (when the preferability distribution Manchuria from Tientsin and to North Korea from south fully recognized as desirable ultimate objective) or which would give Commies incentive increase Soviet oil imports and stimulate creation Sino-Soviet oil distribution company and even attempt at monopoly.

ConGen told Tientsin Commies adopting very arbitrary attitude as to price on petroleum products so that 3,000 drums Texaco shipped from Hong Kong being returned that port. No mogas or kerosene shipments North China, Manchuria from Hong Kong past week with traders conducting "sit-down strike" against Commies.

Sent Department; repeated Seoul 15, Peiping 125. Pouched Nanking 706, Hong Kong 61, Canton Embassy 281.

CABOT

893.6363/4-1849 : Telegram

*The Secretary of State to the Consul General at Shanghai (Cabot)*²²

WASHINGTON, April 22, 1949—8 p. m.

730. ConGentel 1231, April 18. Dept summary recent China, Hong Kong rpts indicate 150,000 bbls gasoline available North China from imports and stocks company tanks. Repts also show limited quantity other POL^{22a} including lubricants.

Request soonest ConGen estimate from available data stocks imports Pol available Commies, with estimate number months supply civilian requirements.

ACHESON

893.6463/4-2749 : Telegram

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

SHANGHAI, April 27, 1949—10 a. m.

[Received April 27—6:11 a. m.]

1388. I am reliably informed local head Shanghai Power Company is greatly discouraged at situation and has sent long strongly worded

²² Repeated to the Embassy in China as No. 511 and to consular posts at Canton as telCan No. 104, Peiping as No. 228, and Tientsin (via Peiping) as No. 80.

^{22a} Petroleum, oil, lubricants.

cable to his Department in which he wants have assurances continued petrol supply or to leave Shanghai without his foreign staff. Although estimates vary, effect either withdrawal foreign staff or stoppage petrol supplies would probably be grave if not catastrophic for entire city. I feel this emphasizes need for approach to Communists mentioned in my preceding telegram²³ since we cannot wait until Communists enter Shanghai before Power UK [Co.?] staff has reached decision in one way or another.

I understand American and Foreign Power [Co.] has written local plant completely off its books and therefore cares little what happens to it. Department, of course, knows it supplies most of city power and is essential not only for lighting but also to keep mills running, provide power for telephone company, pump water, sewerage, et cetera.

I believe in any approach Communists, it should be made clear continuance fuel oil supply for any western source depends favorable recommendation French, American and British Consuls General, Shanghai. I trust Department will get such commitments from companies and British.

[CABOT]

893.6463/4-2849 : Telegram

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

SHANGHAI, April 28, 1949—9 a. m.

[Received 1:03 p. m.²⁴]

1409. Hopkins, Shanghai Power Company, called this morning after reference telegram²⁵ had been sent and generally confirmed picture given therein. He wants positive assurances continued fuel oil supplies for Power Company. I told him my instructions envisaged no blocking continued fuel oil supplies provided Communists generally behaved themselves but we wanted fuel oil supplies in city at moment Communist take over to be low but adequate. (Remytel 1388, April 27, 10 a. m.). He said he had been able only through ECA intervention have fuel oil unloaded from ship on Monday²⁶ in sufficient quantity keep power company running after April 30. I said I certainly thought ECA funds could be used maintain fuel oil supply on hand for 30 days in advance. I pointed out fuel oil paid for by ECA could not be delivered in Shanghai after Communists take over but reiterated there should be no difficulty in delivery fuel oil provided Communists arranged payment for it and behaved themselves. I pointed out powerful weapon

²³ See No. 1389, April 27, from the Consul General at Shanghai, p. 1251.

²⁴ Text printed from corrected copy received April 30, 9:10 a. m.

²⁵ *Supra.*

²⁶ April 25.

this placed in our hands to which Hopkins vigorously assented. Hopkins would like positive assurances of no diversion before Communists take over. I feel he should be given such assurances so long as supplies not excessive. We emphatically do not wish to be placed in position stopping life this city unless and until Communists have justified such action by their own misbehavior.

Please instruct.

CABOT

:893.6363/4-2949 : Telegram

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

SHANGHAI, April 29, 1949—1 p. m.

[Received 6:20 p. m.]

1437. Approximate total current POL stocks available Shanghai area (Department's 730, April 22, repeated Canton 104) including released, bonded free and bonded committed, in barrels of 42 American gallons follow.

Quantity	Product	Estimated Days Supply Civilian Consumption
71, 201	avigas	54
137, 893	mogas	103
144, 727	kerosene	177
109, 569	light Diesel	80
215, 158	medium Diesel	105
338, 539	fuel oil	27
66, 863	lub oils	95
7, 073	greases	206
104, 629	crude oil	43

Oil companies diverting en route tankers to Hong Kong, Taiwan or South China ports and being requested if feasible move out excess inventories Shanghai bonded free stocks.

Sent Department 1437, repeated OffEmb Canton 369.

CABOT

:893.6363/4-2949 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, April 29, 1949—4 p. m.

[Received May 1—3:12 p. m.]

280. Deptel 80, April 21 [22].²⁸ Figure mentioned in Deptel far too low. Following figures obtained confidentially from tanks oil com-

²⁸ See footnote 22, p. 1008.

panies show companies' present stocks at Tientsin, Peiping and Tangku:

Motor gasoline (American gallons), Shell 141,200; Standard-Vacuum 284,000; Caltex 1,028,800; total 1,454,800. Kerosene (American gallon), Shell 103,960; Standard-Vacuum 495,000; Caltex 10,630; total 609,590. Aviation gasoline (American gallon), Shell 221,380; Standard-Vacuum 11,590; Caltex 11,500 ton* [*sic*] total 348,470 [*sic*]. Aviation lubricants (American gallons), Shell 460; Standard-Vacuum 27,280; Caltex 23,820; total 51,560. Diesel oils (metric tons), Shell 1,060; Standard-Vacuum 1,090; Caltex 980; total 3,130. Commercial lubricants (American gallons), Shell 125,400; Standard-Vacuum 216,470; Caltex 508,940; total 880,810* [*sic*]. Empty 53 American gallon drums, Shell 52,300; Standard-Vacuum 24,400; Caltex 31,600; total 108,300.

Only figures on military stocks at Tientsin represent amounts taken over from Nationalists on capture city in January. These stocks were: motor gasoline 50,000 to 60,000 drums or about 3 million American gallons.

Aviation gas 1500* [*sic*] drums or about 800,000 American gallons. Some of above has been consumed but no way of knowing how much. Also fire at ex-Japanese supply dump April 16 (see ourtel 252, April 18²⁹) destroyed an estimated 10,000 drums.

Motor gasoline imported into Tientsin since occupation January reported as 1,614,100 American gallons; of this 1,320,000 gallons came by rail cars from Manchuria in barter arrangement with Soviets; 225,200 gallons were Standard-Vacuum gas bought in Hong Kong, shipped on barter basis by Chinese merchant, and same applies to 66,900 gallons Caltex gas which arrived here recently.

Other items imported since occupation: kerosene: 90,100 gallons of which 53,000 Standard-Vacuum and 37,100 Caltex. Diesel oil: 252 tons Standard-Vacuum imported from Hong Kong. Shipment of 53,000 gallons lubricating oil also came from Hong Kong, origin unknown.

Impossible estimate even roughly how long above stocks will last. Average total monthly sales during 1948 were 330,000 gallons kerosene and 500,000 gallons gasoline, but conditions not same now. Rate of consumption will depend largely on attitude of Communist government re granting of foreign exchange. Present cocky attitude reported due to fact they expect pick up large stock gas occupation Shanghai. Oil companies state will make no further imports unless exchange question is settled.

SMYTH

* Not printed.

893.6363/4-3049 : Telegram

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

SHANGHAI, April 30, 1949—2 p. m.
 [Received April 30—12:34 p. m.]

1451. Foreign business communities are increasingly concerned at lack of any clear cut policy statement from Washington re oil supplies for Shanghai. Entire local situation likely to collapse if oil supplies run out. I am sure Department will not wish US to take onus for such a situation without good cause although I am in favor of using threat of cutting off oil supplies to keep Communists in line, for example, in treatment of Embassy Nanking and American citizens and interests in Shanghai.

I must therefore respectfully insist that Department give me further indication promptly of its thinking in this and related matter other supplies for Shanghai. I, of course, appreciate that ECA aid must cease when Communists enter Shanghai but I nevertheless assume that Communists will be able to make some deal with oil companies if Department acquiesces. I feel it would be extremely helpful if oil company representatives were instructed when Communists approach them to state that reports of Embassy and Consul General, Shanghai, will largely determine extent to which oil supplies will be forthcoming.

Please instruct urgently.

CABOT

893.6463/4-2849 : Telegram

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

WASHINGTON, April 30, 1949—2 p. m.

811. Dept views in genl accord statement made Hopkins urtel 1409 Apr 28. ECA sending tels dealing detailed aspects ECA commodity operations. As indicated NSC 41⁸⁰ US Govt has no present intention preventing Shanghai petroleum imports thru private channels after Commie takeover.

ACHESON

893.6363/5-1149 : Telegram

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

NANKING, May 11, 1949—9 p. m.
 [Received May 12—3:58 p. m.]

1003. Representatives three oil companies Nanking (Wolf of Caltex, Lawrence of Shell and Chen of SVOC, latter Chinese manager)

⁸⁰ February 28, p. 826.

called by prior appointment at Alien Affairs Office,³¹ Nanking, on May 7. Intention in making appointment had been to indicate early wish cooperate local authorities by way of inquiry re current attitudes and policy local officials toward oil companies. Conversation was with Chen Ying, Deputy Director, who informed them authorities wished continuation their normal activities and intended protect their properties to fullest. Atmosphere described as cordial. Representatives asked to submit information, lists properties, personnel, stocks.

Wolf, Caltex, inquired about further supplies, pointing out stocks his company very low at time take-over. He states he assured in response import arrangements would be no problem at later date, but currently depended entirely, of course, on military situation.

While SVOC and Caltex have continued distribute available stocks as usual, Shell has reluctantly refrained because soldiers occupying Shell property last week (now evacuated) prevented movement loaded oil drums from Shell property claiming this unpermissible without written permission Military Control Commission.

Wolf again visited Alien Affairs Office to ask assistance in restoration oil supplies looted SVOC warehouses over occupation week-end. He optimistic some supplies will be returned, because Bureau stated would do all within its power locate, return stolen goods.

Suggest Shanghai in its discretion convey substance above to local representatives Caltex, SVOC.

Sent Department 1003; repeated Shanghai 558; Peiping 157.

STUART

893.6363/5-1649 : Telegram

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

SHANGHAI, May 16, 1949—7 p. m.

[Received May 16—7:34 a. m.]

1667. Fuel supply situation Shanghai Power Company critical with sudden stoppage of shipping. Oil and coal stocks on hand will last 10 to 15 days. Present load factor 91,000 KW or 54 per cent capacity and 37 per cent below demand same period 1948. Reputed Caltex supply 40,000 ton fuel oil. If made available to SPC, power supply maintainable 65 days at present load demand but once Shanghai occupied, ECA financing ceases and Caltex will require payment foreign exchange with sources, facilities, procedures not now visible.

CABOT

³¹ Chinese Communist agency after occupation of Nanking.

893.6363/5-2149 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 21, 1949—11 a. m.
 [Received May 23—12:51 a. m.]

344. Reourtel 280, April 29 and previous on oil situation. White, manager Texaco here, reports Communists recently showing much interest in obtaining greases and lubricating oils for railways which evidently running short these items. Communists have repaired and now have in operation much rail mileage not running prior Communist occupation. White says yesterday local Communist government purchasing department which buys for railways, public utilities, government industries, etc., approached him for greases and lubricating oil for South Manchurian railways; they gave immediate requirements greases and lubricating oil about 15,000 drums initial order; they will provide foreign exchange and import permits. White says purchase department also showing interest in motor gasoline, as their armies may be running short.

White requests Texaco connection this information be kept confidential.

ConGen suggests this might be opportunity to put into effect policy suggested Deptel 71, April 13,³² that quantities oil products supplied Communists should not exceed and preferably be somewhat lower than normal civilian requirements. To be effective this policy should be followed by all oil companies.

SMYTH

893.6363/6-849 : Telegram

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

HONG KONG, June 8, 1949—4 p. m.
 [Received June 8—8:48 a. m.]

318. Steamer *San Jeronimo* (775 tons gross) sailed today for Tientsin carrying full load comprising 6290 drums gasoline shipped by Trinity Development Company, Hong Kong. Cargo manifested as 3309 drums from Standard-Vacuum Oil Company and 2981 drums from Asiatic Petroleum Company (Shell).

HOPPER

³² See No. 202, to the Consul General at Peiping, p. 1006.

893.6363/6-2149 : Telegram

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

SHANGHAI, June 21, 1949—3 p. m.

[Received June 22—6:23 a. m.]

2382. Navy Department SMCC³³ today published notice *Liberation Daily* freezing Caltex oil stocks held for Kmt³⁴ armed services under Central Trust contract at Nationalists' risk and cancelled outstanding delivery orders. Prior actual delivery, CalTex proposes request requisition orders from SMCC protect its interests, which presumably obtainable without difficulty.

As precaution avoid possible misunderstanding, please advise Caltex, New York.

Repeated Canton 761, Nanking 1270.

CABOT

893.6363/6-2349 : Telegram

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

SHANGHAI, June 23, 1949—4 p. m.

[Received June 23—5:09 a. m.]

2438. [To Canton:] Caltex is very anxious bring *Rum River* into Shanghai meet increasingly acute fuel oil shortage. They could bring ship in on evening tide 24th and unload to leave by evening tide 25th in order be out of Shanghai before blockade officially inaugurated.³⁵

Would appreciate immediate word as to result of representations regarding aerial bombings in order gauge hazards bringing *Rum River* in. Suggest you repeat reply to Washington with request Caltex head office be informed.

Sent OffEmb Canton 784; repeated Department 2438.

CABOT

893.6363/6-2449

Memorandum by the Assistant Chief of the Division of Chinese Affairs (Freeman) to the Deputy Director of the Office of Far Eastern Affairs (Allison)

[WASHINGTON,] June 24, 1949.

Subject: Discussion with Mr. Jones, British Petroleum Attaché,
Regarding Shipments of POL to China

³³ Shanghai Military Control Commission (Communist).

³⁴ Kuomintang (Nationalist Party).

³⁵ For further correspondence regarding the blockade, see pp. 1098 ff.

In a discussion this afternoon with Mr. Jones, which was attended by Mr. Moline ³⁶ and Mr. McBride of PED, both sides of the Chinese penny with regard to shipments of petroleum were brought up.

We first presented that matter brought to the Department by Colonel Kavanaugh ³⁷ regarding the desire of the Chinese Petroleum Corporation to conclude a 3 to 5 year contract with Caltex for the shipment of crude oil to Hulutao. Mr. Jones expressed complete agreement with the Department's position that it would be undesirable for either Caltex or the Anglo-Iranian Oil Company to conclude a long-term contract with the Chinese Communists at this time. He also expressed agreement with the desirability of continuing small shipments on a single contract basis to Hulutao and assured us that he would bring the matter to the attention of his government immediately with the idea of seeking assurances from the Anglo-Iranian Oil Company that they would adopt a position similar to that of Caltex.

The second matter, that of the delivery of 60,000 barrels of aviation gasoline to Formosa, was also discussed with its various ramifications. As could be expected following the bombing of the *Anchises*,³⁸ Mr. Jones again expressed complete agreement with the suggestion which had been made to Stanvac that they endeavor to adopt a common front in this matter together with the other American oil distributors and refrain from submitting bids. Mr. Jones went on to say that Anglo-Iranian would probably be the only British or Canadian company in a position to supply such a large amount of aviation gasoline and that he felt sure that that company would be responsive to a British Government suggestion as to the undesirability of concluding such a contract at this time. Mr. Jones added that he would also bring this matter to the attention of his government.

893.6363/6-2449 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*

WASHINGTON, June 24, 1949—6 p. m.

2183. For Martin and McIntyre.³⁹ Dept informed by Caltex its Shanghai office offered 3 to 5 year contract by Chi Petroleum Corp for delivery annually minimum 75 thousand tons maximum 150 thou-

³⁶ Edwin G. Moline, Assistant Chief of the Petroleum Division.

³⁷ Col. E. P. Kavanaugh, of the California-Texas Oil Co.

³⁸ British vessel.

³⁹ Edwin M. Martin, Acting Director of the Office of International Trade Policy, Department of State, and Francis E. McIntyre, Assistant Director of the Office of International Trade, Department of Commerce, on a mission to the United Kingdom to discuss technical aspects of trade policy in regard to Communist-occupied China; for correspondence, see pp. 817 ff.

sand tons crude oil to refinery Hulutao. Info recd by company from Shanghai indicates Anglo-Iranian willing conclude contract if Caltex refuses. Dept has indicated in discussions with Caltex representative that it is considered premature to rush into long-term contracts with Chi Commies but recognizes possibility bargaining power US wld be increased if some oil delivered thus causing Commies to rely on Western sources which cld be cut off shld conditions warrant. Caltex proposes reply to CPC that in view unsettled situation in China it does not wish enter into formal long-term contract but is willing continue present shipments to Hulutao insofar as possible under existing terms. Shld Anglo-Iranian offer definite long-term contract to CPC it wld likely be accepted, thus depriving CalTex business. CalTex has until June 30 to make reply to CPC.

In view above circumstances matter shld be discussed with Brit with view to agreeing on common course of action. CalTex indicates willingness compete for business with Anglo-Iranian on equal terms but does not wish be placed in inferior position by refusing to conclude long-term contract if Anglo-Iranian not so inclined. Your comments and those of Brit urgently requested.

ACHESON

893.6363/6-2349 : Telegram

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

WASHINGTON, June 24, 1949—8 p. m.

1287. Re ur 2438. Caltex notified with request they inform Dept of any action proposed here. Nothing planned as yet. Dept on June 23 released full text Chi note⁴⁰ re commercial shipping situation Yungchia (Wenchow), Ningpo, Shanghai, Tientsin and Chinghuangtao (Chinwangtao), per Cantel 638.⁴¹

ACHESON

893.6363/6-2749 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, June 27, 1949—4 p. m.

[Received 4:30 p. m.]

2470. As result Embassy inquiry June 25 (reDeptel 2183, June 24), Foreign Office stated Anglo-Iranian would not enter into any long-term contract Chinese Communists crude oil without prior review

⁴⁰ Department of State *Bulletin*, July 11, 1949, p. 34.

⁴¹ June 23, not printed.

with UKG⁴² and Anglo-Iranian had not yet raised issue. British contacting Anglo-Iranian and will communicate with Embassy later today. Meanwhile agree exchange information desirable to permit coordination US-UK positions.

View US position re control exports to China, Embassy agrees undesirable either Caltex or Anglo-Iranian enter into formal long-term contract and will urge UKG agree this as joint US-UK policy.

Sent Department 2470; repeated Ancey 12 for Martin.

DOUGLAS

893.6363/6-2849 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, June 28, 1949—1 p. m.

[Received 2:35 p. m.]

2485. Embtel 2470, June 27. Foreign Office informs Embassy they agree with US position and have instructed Anglo-Iranian not to accept long term contract supply petroleum to China though they are, of course, free compete if they wish on basis which would permit termination of supplies on short notice.

In addition, UK has instructed oil companies not to sell aviation gasoline to Formosa as long as Nationalistic Chinese embargo shipping Communist China is in effect.

DOUGLAS

893.248/6-2849 : Telegram

The Secretary of State to the Consul General at Taipei (Krentz)

WASHINGTON, June 28, 1949—5 p. m.

155. Nat Govt querying market substantial quantities avgas for delivery Taiwan. Dept desires your best estimate mil stocks avgas on island and current rate CAF⁴³ consumption.

ACHESON

893.6363/6-2849 : Telegram

The Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, June 30, 1949—3 p. m.

2246. Deptel 2183 June 24, Embtel 2485 June 28. Dept has informed major US oil companies its natural wish any contracts entered into north China be short rather than long term. It must be remembered,

⁴² United Kingdom Government.

⁴³ Chinese Air Force.

however, that small US concerns might enter bidding and thereby produce competitive situation resulting in major US companies and presumably Anglo-Iranian being forced to extend contract period in their bids.

Re ur final para Dept has not and can not place any obstacles in path Chi Nat Govt utilization its own funds for avgas or other supplies it deems necessary in conduct its military operations. Brit Emb Wash. has been so informed.

ACHESON

893.6363/6-3049 : Telegram

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

HONG KONG, June 30, 1949—3 p. m.

[Received July 1—1:39 a. m.]

393. Chinese naval tanker *O-Mei* here to load 3,000 tons fuel oil bought from Caltex. Hong Kong government seeking means prevent supplying Nationalist Government with fuel to operate naval vessels. Governor asked me to ask Caltex to delay loading until matter discussed higher levels; Caltex agreed. Shell and Standard notified. Difficult to see how Nationalists or Communists can be prevented obtaining fuel unless all sellers of oil are placed under general embargo by respective governments.

HOPPER

893.6363/7-1349 : Telegram

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

SHANGHAI, July 13, 1949—10 p. m.

[Received July 13—9:38 p. m.]

2752. Vice Chairman SMCC Foreign Trade Bureau met representatives all principal oil companies July 12 discuss basis future market. On this occasion companies were advised as follows:

1. Re mogas, Government plans all present stocks future imports be sold to Government ex-main terminal. In view oil companies' investment filling stations, other distribution facilities, it is contemplated, however, that while sale to large consumers would be from Government-owned product ex-major terminals smaller buyers would be supplied through existing distribution facilities oil companies but with companies acting as agents Government, on basis handling charges, other allowances to be agreed upon. Details re actual working arrangements still unclarified and oil companies' suggestions invited.
2. For black oils, Government envisages system strict rationing and price control but with ownership product remaining with importing companies which is substantially same system as previously existed.

3. For kerosene, lubricating oils, Government plan is for the present distribution remains in oil companies hands with understanding that Government be advised currently of prices which should be kept on fair basis.

4. While avigas not presently required, Government plan is that it would come under marketing arrangements similar to those for mogas.

5. On all products system import quotas is to be discontinued and business kept on competitive basis with understanding that after import licenses have been issued importers would be permitted purchase exchange on free market. Under what conditions import licenses would be issued or how free market will operate remains unclear.

6. Oil companies were requested submit soonest possible (a) quantities mogas they desire turnover Government corporation as well as price at which offered; (b) their views regarding fair selling price for all petroleum products with details as to basis calculation; (c) periodic reports covering deliveries and stocks on hand.

Oil companies Shanghai endeavoring supply information above requested.

Please advise Washington representatives Standard-Vacuum, Caltex for information their New York offices.

CABOT

893.6363/7-3049 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, July 30, 1949—2 p. m.

[Received July 30—6:41 a. m.]

2970. Shanghai Government now proceeding with implementation proposed distribution arrangements motor gasoline reported Congtel 2752, July 13 and also planning institute very large consumer tax on sales to be collected for account Government by oil companies distributing Government-owned product.

Local oil company representatives would appreciate guidance their principals re attitude to be adopted by them connection proposed marketing arrangements mogas and are wiring them direct.

Local view is that principals should instruct them continue stress to local government fact that rationing price control can afford all safeguards required for sales mogas and that distribution under proposed monopoly arrangements undesirable every way but, in view unusual local situation, authorize representatives cooperate fully with authorities in connection disposal existing stocks under proposed marketing plan but at same time requesting their representatives reserve right withdraw from plan at any future date when new shipments to China are contemplated should this seem desirable that time.

Please advise Washington representatives StanVac, Caltex for information their New York offices.

McCONAUGHY

893.6363/8-249 : Telegram

The Consul at Tsingtao (Hawthorne) to the Secretary of State

TSINGTAO, August 2, 1949—10 a. m.

[Received August 5—12:49 p. m.]

399. Caltex Tsingtao shipping 200,000 gallons avigas Peiping account Communists. Unknown whether for commercial or military use. Department pass Nanking at its discretion.

HAWTHORNE

893.6363/8-549 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, August 5, 1949—6 p. m.

[Received August 6—12:47 a. m.]

3088. 1. Shell official today advised Embassy office that four tankers under charter United Tanker Corp., an affiliate of Chinese Petroleum Corp. (Nationalist), are en route from Constanza, Rumania, to Dairen.

2. Following data given on tankers:

- a. *Katemark* passed Aden July 23 loaded 8,000 tons kerosene.
- b. *Kettleman Hills* passed Suez July 25 loaded 13,000 tons gasoline.
- c. *Beauregard* passed Aden July 28 loaded 7,751 tons gasoline and 4,800 tons kerosene.
- d. *St. Christopher* passed Istanbul July 25 loaded either gasoline or kerosene or both. Quantities unavailable.

No information available as to consignors or consignees.

3. Shell official believes transaction may be direct trade between Soviet Govt and Chinese Communists in exchange for shipments of soybeans.

DOUGLAS

893.6363/8-249 : Telegram

The Secretary of State to the Consul at Tsingtao (Hawthorne)

WASHINGTON, August 17, 1949—6 p. m.

241. Request info source Avigas shipped Peiping account Communist urtel 399 August 2. Caltex office here reports company's Tsingtao Avigas stocks under 100 bbls.

ACHESON

195.2/8-1849

Memorandum by Mr. Livingston T. Merchant of the Office of Far Eastern Affairs to the Secretary of State

[WASHINGTON,] August 19, 1949.

The Department has received recently a number of reports that two American tankers, SS "Kettleman Hills" and SS "St. Christopher", are engaged along with other foreign flag tankers, in the transport of petroleum products from Constantza, Rumania, on the Black Sea, to Dairen and possibly to Vladivostok.

Admiral Souers, Executive Secretary of the NSC,⁴⁴ informed the Department on August 15 that the President had been told of this movement by CIA.⁴⁵ The President's immediate reaction is understood to have been that the Maritime Commission should stop it. At Admiral Souers' suggestion, the matter was referred to the Department.

There are low level rumblings in NME⁴⁶ which may develop into a letter to you from Secretary Johnson.⁴⁷ Senator Knowland⁴⁸ is known to be aware of this traffic and there may be open discussion of it on the Hill.

Outstanding policy as contained in NSC 41,⁴⁹ approved by the President on March 3, 1949, contemplates permitting reasonable quantities of civilian type petroleum products to enter Communist China. The premises and conclusions of NSC 41 are under review in collaboration with the Consultants.⁵⁰ It is unfortunate that an operational decision on this matter, with all its explosive potentialities, must be reached prior to the conclusion of the present reexamination of policy with respect to economic relations with Communist China.

Two alternative courses of action appear possible. First, you can recommend to the President that for the present no interference with the traffic be attempted on the grounds that the quantities and products involved are not serious; that it falls within the framework of outstanding policy as approved by him; and that to take isolated action in this case might seriously prejudice decision on the broader aspects of this problem which will be made with the benefit of the completed report from the Consultants. In adopting this course, the President should be prepared for possible adverse domestic repercussions.

The second course would be to attempt to remove American tankers from this run. There appear to be practical difficulties in any such

⁴⁴ National Security Council.

⁴⁵ Central Intelligence Agency.

⁴⁶ National Military Establishment.

⁴⁷ Louis Johnson, Secretary of Defense.

⁴⁸ William F. Knowland, of California.

⁴⁹ February 28, p. 826.

⁵⁰ For announcement on July 30 of appointment of consultants, see Department of State *Bulletin*, August 22, 1949, p. 279.

effort. The Maritime Commission has informed us that in their view these vessels are operating in accordance with law and it doubts the existence of any legal powers by which the Commission could force a cancellation of the charter in question or otherwise prevent on legal grounds their continuation in the trade. L⁵¹ believes that Section 808, Title 46, U.S. Code,* might be applicable and provide a basis for legal action by the Maritime Commission. In the absence of legal basis for Maritime Commission action, the alternative would be to exert moral suasion on the American owners of the American tankers involved, with due regard for the operators' contractual obligations. Even if successful this would probably not seriously affect the trade. We know of two other tankers, one Norwegian flag and the other Danish flag, engaged in the run. There is apparently a world surplus of tanker tonnage which presumably will enable the chartering of other vessels.

If we want to cut American-owned tankers out of the trade and leave it to others, this no doubt could be done by high-level moral pressure realizing the necessity to take into account the contractual obligations involved. If we want to embargo Communist China in respect to oil products, it will be necessary to secure agreement in this policy by all governments whose Nationals own or operate surplus tankers. This will be difficult, witness our inability to persuade the British to move far in the direction of trade controls over exports to Communist China. If the attempt is to be made to stop this traffic, it is recommended that the President ask the Maritime Commission urgently to examine its legal powers and, if these exist, to exercise them to remove American flag tankers from the run. If the necessary legal powers are not available to the Maritime Commission, then it should be requested by the President to call in the owners and request they desist as a matter of Government policy. On balance, it is believed that this course of action is the least desirable.

Accordingly, it is recommended that you discuss this question with the President and recommend that no steps be taken to interfere with the traffic, so long as it is confined to what appears to be reasonable quantities and civilian type products, pending conclusion of the Consultants' review of our China policy.

[Annex]

EXTRACT FROM SECTION 808, TITLE 46, UNITED STATES CODE

"Every vessel purchased, chartered, or leased from the Commission shall, unless otherwise authorized by the Commission, be operated

⁵¹ Office of the Legal Adviser.

*Extract attached. [Footnote in the source text.]

only under such registry or enrollment and license. Such vessels while employed solely as merchant vessels shall be subject to all laws, regulations, and liabilities governing merchant vessels, whether the United States be interested therein as owner, in whole or in part, or hold any mortgage, lien, or other interest therein.

"Except as provided in section 1181 of this title, it shall be unlawful, without the approval of the United States Maritime Commission, to sell, mortgage, lease, charter, deliver, or in any manner transfer, or agree to sell, to any person not a citizen of the United States, or transfer or place under foreign registry or flag, any vessel or any interest therein owned in whole or in part by a citizen of the United States and documented under the laws of the United States, or the last documentation of which was under the laws of the United States."

693.119/8-2249

The Assistant Director of the Executive Secretariat (McWilliams) to the Deputy Under Secretary of State (Rusk)

[WASHINGTON,] August 22, 1949.

Mr. Webb⁵² has read the attached⁵³ but is not convinced that the recommended course is the proper one. He says that Admiral Hillenkoetter⁵⁴ informs him that the quantities are serious and that the President has previously stated that he wants to make things just as tough economically for the Chinese Communists as is possible.

In view of the above, would you please have this reexamined to see if the answer is the same?

W. J. McWILLIAMS

893.6363/8-2349

Memorandum by the Chief of the Division of Chinese Affairs (Sprouse) to Mr. Livingston T. Merchant of the Office of Far Eastern Affairs

[WASHINGTON,] August 23, 1949.

Mr. Kavanaugh of the Texas-California Oil Company telephoned this afternoon to discuss the question of Texaco's entering into a contract with the China Petroleum Corporation (now Communist-controlled) at Shanghai for the delivery of crude oil to Shanghai. He pointed out that he had previously discussed this matter with Mr. Butterworth and that at that time Mr. Butterworth had indicated the Department would have no objection. He explained that the pro-

⁵² James E. Webb, Under Secretary of State.

⁵³ *Supra.*

⁵⁴ Rear Adm. R. H. Hillenkoetter, Director of Central Intelligence.

posed contract was on the shortest term basis possible, six to nine months, and that deliveries were to be made f.o.b. with one cargo every two months, the first cargo to be January 1, 1950. He further explained that the proposed contract provided for possible shipment by Texaco if the latter had ships available, thus providing an out for Texaco if it decided not to make the shipment itself but to require the China Petroleum Corporation to provide its own vessels. He stated that source of the crude oil was the Persian Gulf from which shipments would be made.

I informed Mr. Kavanaugh that I was not familiar with this matter but that I would discuss it with Mr. Merchant with a view to giving him an answer at the meeting tomorrow afternoon.⁵⁵

893.6363/8-2349

The Assistant Secretary of State (Gross) to Senator William F. Knowland

WASHINGTON, August 23, 1949.

MY DEAR SENATOR KNOWLAND: I refer to Mr. Delaney's⁵⁶ telephone conversation on August 11 with Mr. Sprouse, Chief of the Division of Chinese Affairs, requesting information concerning the petroleum situation in Communist-occupied areas of China. While exact data on requirements and availabilities for Communist China is not available, the general information summarized below may prove useful.

The Chinese Communists claim that petroleum stocks of private firms and of the National Government in north and central China amounted to one million barrels at the time the Communists occupied those areas. It has been estimated that the portion of this stock held by American firms was 400,000 barrels.

The only important domestic source of petroleum available to the Chinese Communists is the shale oil refinery at Fushun, Manchuria. The output at this plant has reportedly been reduced from 1,300,000 barrels (1943) to 100,000 barrels annually, due in part to Soviet stripping. The Communists control a large refinery at Hulutao, taken over intact upon the withdrawal of Chinese Government forces from Manchuria, and another at Dairen, under Soviet control, but both these installations are at present reported to be idle for lack of crude oil supplies.

⁵⁵ Marginal notation by Mr. Merchant: "This would be in accord with present policy but I recommend that you ask Kavanaugh to keep the time period of any contract as low as possible—preferably three months".

⁵⁶ William C. Delaney, Secretary to Senator Knowland.

The USSR has supplied limited quantities of petroleum products to Manchuria since the war, in exchange for soybeans, grains, and other foodstuffs. These imports were probably sufficient for limited Communist requirements until the end of 1948, when the Communists assumed control of the industrialized urban sectors of the Northeast. The barter arrangement will be continued under the terms of a recently announced trade agreement between the Soviet Union and Manchurian authorities. The Department has received reports to the effect that approximately 200,000 barrels of kerosene and gasoline were shipped from Constanza, Rumania to Dairen during the latter part of July.

Communist north China has received some shipments of petroleum from Manchuria, the Soviet Union, and Hong Kong during 1949. However, interference with shipping at Shanghai by the Chinese Government has prevented, as far as is known, any imports of petroleum at that port since the latter part of June 1949.

The above sources of petroleum are believed to meet only a fraction of minimum requirements in Communist-controlled areas of China and Manchuria. These minimum requirements have been estimated roughly at five million barrels annually. Indications of a severe petroleum shortage in Communist China are to be found in the frequent demands of Communist authorities that civilians cut down oil consumption, in the hasty conversion of the Shanghai Power Company and other industrial plants from oil to coal, and in the installation of charcoal burners in motor vehicles.

Sincerely yours,

ERNEST A. GROSS

893.6363/8-2349

Memorandum by the Chief of the Division of Chinese Affairs (Sprouse) to Mr. Livingston T. Merchant of the Office of Far Eastern Affairs

[WASHINGTON,] August 26, 1949.

Following the discussion with you of the proposed contract between Texaco and China Petroleum Corporation (Communist) on August 24, I telephoned Mr. Kavanaugh at his home and suggested that he drag his feet and do nothing toward implementation of this contract for the time being. Mr. Kavanaugh explained that Texaco was reluctant to take any action at the present time indicating that it would not go through with any such arrangements for fear of the effect it would have on the position of Texaco personnel in China. He said that no action was contemplated under the contract at present and that the first cargo was scheduled for January 1, 1950. He explained that he

had merely wished to keep the Department informed in this regard and to ascertain if there had been any change in the Department's position.

I promised that I would again get in touch with him within the next few days and give him a more definite indication of the Department's views.

195.2/8-1849

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] September 7, 1949.

In connection with the use of American tankers to carry oil from Constanza, Rumania to Dairen, further investigation has uncovered a letter received by the Shipping Division on August 20 from the firm of Sieling & Jarvis in New York⁵⁷ which operates the SS *Kettleman Hills*. This letter refers to an oral assurance given on June 15 to the writer by an officer of the Department to the effect that there was no objection to the chartering of this tanker to the USSR for this run. There was at the time and is now no statutory objection nor, to my knowledge, any established policy which this charter violated.

The letter under reference contains the following paragraph:

"Since obtaining the above assurance, we have made other charters with various bureaus of U.S.S.R. and, naturally, will continue to do business with them until, as intelligent citizens of the United States of America, we are on notice that to do so will harm our nation in any way, or, until we are notified by you or other competent authority to desist."

Under all the circumstances it seems clear that in order to remove the SS *Kettleman Hills* from this traffic it will be necessary for the Department or some other agency of the Government to make a direct request to the operators. In fairness to them similar action should be taken to prevent other American tanker owners or operators from concluding similar charters. In this connection, I am informed that the rates for this run carry a 50 per cent premium. Finally, in fairness to American shipping and in order to assure the achievement of our presumed objective of cutting off all sea-borne petroleum supplies to Manchuria, we should promptly seek agreement of the Norwegian, Danish and other friendly governments owning a surplus tanker tonnage to refrain from permitting their tankers to be used for this purpose.

⁵⁷ Not printed.

893.6363/10-1449

*Memorandum of Conversation, by Mr. Robert N. Magill of the Office
of Chinese Affairs*

[WASHINGTON,] October 14, 1949.

Participants: Colonel E. P. Kavanaugh—California-Texas Oil
Company
Mr. Sprouse—CA
Mr. Magill—CA

Colonel Kavanaugh called today at our request to discuss the recently concluded contract between the Mid-East Crude Sales Company, Ltd., and the Chinese Petroleum Corporation about which the Department was informed in a letter of September 27, 1949 from Mr. Denham, President of the former.⁵⁸ Mr. Sprouse indicated that we were somewhat surprised at Mr. Denham's letter since it implied that the Department had been kept fully informed of the details of the contract and had given its approval to the contract as such. He added that this, of course, was not the case, and that in his last conversation with Colonel Kavanaugh on the subject in August, Colonel Kavanaugh had indicated that the contract might cover a period from six to nine months, and that he (Mr. Sprouse) had suggested that the period be kept as short as possible, preferably to three months. Mr. Sprouse continued that, while the sale of petroleum to Chinese Communist areas in accordance with normal civilian requirements was not in conflict with existing United States policy, the Department was concerned, and had indicated to the petroleum companies, that such sales should be on the most flexible basis possible in order that petroleum companies might adjust to a change in policy if one should occur.

Colonel Kavanaugh reviewed the course of developments leading up to finalization of the contract, indicating *inter alia* that he had not been aware of any understanding having been reached with the British. He stated that a one-year term was the shortest that CPC was willing to consider and that Caltex has been confronted with the alternatives of concluding such a contract or turning the business over to Anglo-Iranian which had offered CPC a one-year contract. He assured us that the *Force Majeure* clause of the contract covered a wide range of contingencies which might be used if Caltex wished to stop delivery. Colonel Kavanaugh added that, while CPC desired that the bulk of crude oil be delivered at Shanghai for storage, Caltex did not intend to use its tankers for deliveries to any port in the face of a threat of Nationalist interference or damage. He indicated that Caltex intended to keep deliveries to the minimum amount which would probably require one tanker shipment every two months.

⁵⁸ Not printed.

In response to an inquiry by Mr. Sprouse, Colonel Kavanaugh stated that he would be glad to supply the Department with a copy of the contract and added that he would keep the Department fully informed of intended and actual shipments under the contract.

893.6363/6-2849 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Douglas)*⁵⁹

WASHINGTON, October 19, 1949—7 p. m.

3770. Deptel 2183, June 24, Embtels 2470, June 27 and 2485, June 28 (not repeated Shanghai). Emb shld informally convey FonOff substance following for their info:

Mid-East Crude Sales Co. has contracted through Caltex to supply Chinese Petroleum Corp 75,000 to 150,000 tons Arabian crude oil during calendar year 1950 for delivery f.o.b. tankers at Ras Tanura, Saudi Arabia. Payment to be made in dollars prior to shipment, affiliate of Mid-East to provide tankers for delivery to Shanghai and/or Hulutao. Contract signed on flexible basis which permits termination on short notice per FonOff suggestion (Embtel 2485).

For Emb and ConGen info only[,] contract signed without full knowledge and approval of Dept. Mid-East had previously discussed 6- to 9-month contract with Dept, was advised by Dept 3-month contract preferable. Co. rep states 1-year contract necessary since CPC unwilling consider shorter term and Anglo-Iranian offering contract on that basis.

ACHESON

893.6363/10-2249 : Telegram

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

SHANGHAI, October 22, 1949—1 p. m.

[Received October 22—3:22 a. m.]

4481. Consulate General understands Chinese Petroleum Company approaching all three major oil companies Shanghai for delivery POL in tanker lots. Such sales would be most disadvantageous to position local offices foreign oil companies in meeting large payrolls. Hence, local understanding reached to reject CPC offers in c.i.f. Shanghai basis without local currency margins to cover local expenses.

Contract, cited Deptel 2124, October 19,⁶⁰ would appear particularly undesirable as giving CPC excessive share in Chinese

⁵⁹ Repeated to the Consul General at Shanghai as No. 2124.

⁶⁰ See footnote 59, above.

market as against some 15 to 20 percent under ECA. Such shipments would tend impair ability foreign companies to cover Shanghai operating costs without head office remittances presumably affecting Shanghai office Caltex equally with Stanvac and Shell.

In consequence this contract, Shell might attempt bulk sales from NEI⁶¹ with more than US \$4 per ton freight advantage, thus giving Communists benefit price cutting, other competitive advantages at expense all established foreign companies.

McCONAUGHY

893.6363/11-1449: Telegram

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

SHANGHAI, November 14, 1949—3 p. m.

[Received November 14—12:13 p. m.]

4784. Remytels 4481, October 22, 4760, November 11 and 4762, November 12.⁶² Manager Standard-Vacuum estimates if California Texaco contract with CPC goes through, *pro rata* cost to 3 major oil companies, Shanghai to cover payrolls would be US \$200,000 monthly each with burden on California-Texaco heaviest due largest staff. He claims Anglo-Iranian made no offer to CPC, does not know origin that report, but says Shell heard about California-Texaco deal, presumably from London.

Possibly position American oil companies would be somewhat eased if California-Texaco proposed contract were reduced to "minimum 3 months' requirements" with optional renewal clauses for 6 to 9 months if unavoidable and with initial sale limited to some 30,000 to 40,000 tons on grounds present uncertainty Shanghai too great to warrant long-term commitments. Implementation such amendments at this late date would probably require adroit explanations from California-Texaco head office, if pressure on California-Texaco Shanghai office to be abated. If feasible, such a policy might give time for interested companies to get together, instead of working at cross purposes as at present. Obvious that indiscriminate competition merely enable Communists play off one oil company against others to their sole advantage, both from commercial and strategic political viewpoints. Communists apparently shopping energetically among independents in USA, elsewhere.

Re-establishment intergovernment [garble] with effective British, Middle East, [NEI,] South American and Mexican participation has

⁶¹ Netherlands East Indies.

⁶² Nos. 4760 and 4762 not printed.

been suggested by which all shipments to Communist China from Western sources would be screened with aim forcing Communists to deal on our terms or lean more heavily on USSR and European satellites. In view apparent difficulties getting international concurrence for more effective export controls, Communist China, and relatively small Chinese market vis-à-vis world total, unlikely such proposal could be worked out.

Oil company representatives apparently not unduly concerned with diversion POL imports ostensibly made for civilian needs to military uses, so long as imports in line with their idea of "normal civilian consumption", say 30,000 to 40,000 tons monthly as ceiling. However, any large import POL by CPC, especially crude, would clearly serve Communist military political, economic objectives, aside from impairment local position major oil companies.

McCONAUGHY

893.6363/11-2249

Memorandum of Conversation, by Mr. Stephen C. Brown of the Office of Chinese Affairs

[WASHINGTON,] November 22, 1949.

Participants: Caltex Oil Company—Messrs. Kavanaugh and Hansen
Standard-Vacuum Oil Company—Messrs. Mays and Seitz
FE—Mr. Merchant
CA—Mr. Sprouse
CA—Mr. Barnett ⁶³
CA—Magill
PED—Mr. Kopolowitz ⁶⁴

On November 15, 1949 the above-named representatives of the oil companies called at the Department at Mr. Merchant's request to discuss problems relating to the shipment of petroleum products to China.

Mr. Merchant outlined to them on a confidential basis our present policy of allowing Communist China to obtain quantities of petroleum sufficient to meet the needs of their civilian economy. He also informed them of our acceptance of the British proposal ⁶⁵ for joint UK-US-Netherlands control of such supplies to the Chinese Communists through informal arrangements with the major British, American and Dutch companies.

⁶³ Robert W. Barnett, officer in charge of economic affairs in the Office of Chinese Affairs.

⁶⁴ Wilfred D. Kopolowitz of the Petroleum Policy Staff.

⁶⁵ For British proposal, see paragraph c of telegram No. 2956, July 26, 6 p. m., from the Ambassador in the United Kingdom, p. 866.

The company representatives showed great interest in this proposal and requested an explanation of how it was to be implemented. It was pointed out in reply that (1) the agreement implied an agreement of the three governments on the total quantities which it would be appropriate to permit, (2) that coordination of company shipments within this framework would have to be effected by the governments, who would exchange information on Chinese stocks and imports, (3) that control of shipments from non-U.S. sources could not be effected through licensing controls, and the governments will have to rely largely on industry cooperation. The company representatives showed great concern that licensing policy for petroleum shipments from this country should not undercut the position of the companies who would have to bear the main burden of restricting shipments. They were informed that we were well aware of this.

They raised the further question whether there was any danger that the British or Dutch Governments might discriminate against them, permitting their British and Dutch competitors to ship while restricting the shipments of American companies. It was pointed out to them that the U.K. and the Netherlands, like the U.S., would have to rely on company cooperation since they do not have license control of offshore shipments; that the proposed system envisaged no license control of offshore shipments; and that discrimination of that kind, if attempted, would provide a proper ground for complaint.

Some discussion of the possibility of supplies from other sources resulted in the conclusion that effective working agreements with the major U.S., British and Dutch companies would make it impossible for the Chinese Communists to obtain significant quantities from any source other than Russia. The company representatives were of the opinion that the Russian supply would not be an important threat over any period of time.

The question was then put, whether the major companies would normally ship anything but lubricants from the U.S. to China. The company representatives indicated that only lubricants would be shipped from the U.S. Any quotas for lubricant shipments from this country should therefore reflect normal civilian requirements.

Another question was raised concerning the normal share of independents in the China petroleum picture. The consensus was that their share normally was about 5 percent, with the Chinese Petroleum Company (Govt.) accounting for about 10 percent more.

Company representatives indicated that total refining capacity of the Hulutao and Shanghai plants of CPC was about 10,000 bbls. per day; the Kaohsiung refinery, on Taiwan, would contribute about 15,000 bbls. additional if it came under Communist control. The

Hulutao and Shanghai plants are topping plants only; the Kaohsiung plant is better equipped, but the consensus was that none was likely to produce a full range of high-grade products. The total of 25,000 bbls. per day would take care of the major share of China's present minimum needs of bulk products, according to Standard representatives.

The opinion was concurred in that in view of Communist policy the best the companies could hope for was that they would be permitted to continue to import c.i.f. and sell bulk products ex-terminal. At present the Communist authorities control the distribution of motor gasoline. The foreign companies control about 75 percent of total bulk tank facilities in China, but might lose control of them if they attempted to shut off oil shipments completely. There was some hesitancy on the part of the company representatives to say just to what extent they would be able to obtain accurate end-use information; it was generally agreed that they could give us fairly accurate information about the end-use of products distributed by themselves, or for the account of the Communist regime through the company distribution facilities; but they felt they would probably be unable to provide information of much value about the end-use of drum and package products sold to the Communists for their own distribution and use.

The companies were asked to furnish, separately, their best estimates of China's requirements for normal civilian consumption, on two bases: (1) On the assumption that the existing industrial economy would be operated at the normal level, and (2) On the basis of the presently foreseeable level of operation. It was explained that this information was needed in order to arrive at figures for use in discussing with the British and Dutch what level of total shipments the concept "normal civilian requirements" implied. Figures based on the two different assumptions would be useful in arriving at an idea of the spread between the present level of consumption and potential civilian requirements.

The company representatives agreed to do this. The Standard-Vacuum representatives expressed the view that the really effective check on petroleum shipments was the limited foreign exchange at the disposal of the Communists, and felt that there was no need to fear excessive shipments for some time to come.

A company representative inquired whether, pending working out of the general arrangements under discussion, the Department would object to negotiations with Chinese Communist authorities which might lead to particular deals. He was told that there was no objection but that it was assumed the Department would be informed generally regarding the progress of any such talks and regarding the terms of any contract likely to be concluded.

893.6363/12-249

*Memorandum of Conversation, by Mr. Richard E. Johnson of the
Office of Chinese Affairs*

[WASHINGTON,] December 2, 1949.

Mr. Seitz⁶⁶ made the following information regarding petroleum shipments to Communist China available to the Department:

Tankers which have departed Constanza, probably destined for Dairen:

<i>Name</i>	<i>Nationality</i>	<i>Cargo</i>
Cape Maersk	Danish	8000 Tons Kerosene
Beauregard	Norwegian	4800 Tons Kerosene
		7751 Tons Mogas
Kettleman Hills	American	13,000 Tons Mogas
St. Christopher	American	100,000 Bbls. Kerosene (7 Bbl/Ton)
Not available	Russian	10,000 Tons Mogas (probable)
Amica	Norwegian	7500 Tons "white products" (kerosene and/or mogas) (scheduled for August loading, no information re departure).

In addition, 3900 Tons (130 30 Ton tank cars) of motor gasoline and kerosene arrived in Dairen, probably from refineries at Sakhalin, destined for transshipment by rail to Mukden and Tientsin.

Purchase arrangements have been completed covering \$10,000 Tons of "furnace oil" (light gasoline), to be shipped from the "Trinidad Leasehold" in the Caribbean, although shipping arrangements have not as yet been made.

893.6363/12-749

*Memorandum of Conversation, by the Chief of the Petroleum Policy
Staff (Eakens)*

[WASHINGTON,] December 7, 1949.

Participants: Mr. J. K. Evans, Washington Representative, Asiatic
Petroleum Company
Mr. Eakens—PED

Mr. Evans expressed concern today over his inability to learn what is the policy and what is going to be done in regard to licensing oil shipments to Communist-dominated China. He said that he had talked with Mr. Magill (CA) who had informed him that there is no policy against the licensing of supplies of oil for essential civilian

⁶⁶ Representing the Standard-Vacuum Oil Co.

purposes. On the other hand, he has talked with people in O.I.T., Commerce, who apparently tell him that they are not able to act upon his company's license applications because State has not decided upon the policy which is to be followed. Mr. Evans said that this situation is keeping his company up in the air without any basis upon which to make its future plans regarding China. He was most desirous of finding out at the earliest possible time whether or not applications are going to be approved for any oil shipments to China.

693.569/12-1949

The British Embassy to the Department of State

CONTROL OF STRATEGIC EXPORTS TO CHINA: PETROLEUM

In connexion with the proposal for the control of exports of strategic materials to China, the Foreign Office are now prepared to approach the Netherlands Government about sales of petroleum.

It is suggested that it would suffice to address a brief note to the Netherlands Government, which might begin by saying that it is desired to take such steps as lie within our power to prevent the Chinese communists acquiring substantial stocks of oil which might later be used for military purposes. The note might then explain that with this in view it has already been made known to the British oil companies that the British Government would prefer them to avoid long-term contracts with China and to confine themselves to supplying oil adequate for civilian requirements on a short-term basis. The Netherlands Government might in conclusion be invited to do likewise.

The Foreign Office are desirous to know if the State Department are now ready to take a similar step and if they agree with the general line of the approach described above.⁶⁷

WASHINGTON, 19 December, 1949.

893.6363/12-2149 : Telegram

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

SHANGHAI, December 21, 1949—4 p. m.

[Received December 21—4 : 29 a. m.]

5331. Caltex and Stanvac sent direct by commercial radio to their New York offices information to effect three oil companies approached

⁶⁷ The Department replied to this memorandum in a memorandum of May 10, 1950, stating that the Department was prepared to enter into discussions of appropriate measures for control (493.569/5-1050). See also the fourth paragraph of the Department's memorandum of December 30, p. 901.

by Chinese POL Corporation acting for Foreign Trade Corporation with request for storage 9,000 tons diesel oil at Tsingtao for maximum 3 months' ex-cargo 11,000 tons by Foreign Trade Corporation in Trinidad for delivery Shanghai. Understood fair storage and filling charges in local dollars will be paid on terms to be agreed on. As tanker eta ⁶⁸ December 31, decision urgent and reply by December 24 asked. While realizing fully drawbacks inherent in proposed scheme, three company managers, Shanghai, felt it essential cooperate and have so recommended.

In original messages to head offices, Caltex [and] Stanvac managers "indicated refusal to extend cooperation might have most unfortunate consequences and we believe you will understand what these may be".

Orally, Stanvac manager said, and Caltex manager agreed, Chinese Communists intimated Shanghai managers three oil companies would be held personally responsible for any failure or refusal to cooperate on part of their respective head offices.

McCONAUGHY

⁶⁸ Estimated time of arrival.

INTEREST OF THE UNITED STATES IN SINO-SOVIET
NEGOTIATIONS RESPECTING TRADE AND AVIATION
RIGHTS IN SINKIANG ¹

761.932/2-149 : Telegram

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

NANKING, February 1, 1949.

[Received February 1—8:45 a. m.]

283. Following is summary Central News Agency despatch dated Hankow January 30:

“General Chang Chih-chung ² left for Lanchow by air today following 2 days spent as guest of General Pai Chung-hsi. ³

Shortly before his departure, Chang told Central News recent reports that his return to Lanchow was in connection with conclusion of commerce treaty between Chinese Government and USSR were not entirely accurate.

These reports had stated Chang was returning to Lanchow for expressed purpose of directing personally conclusion of commerce treaty between two countries.

Chang explained that Sinkiang was prepared to conclude commerce agreement with Russia, which was entirely one of local nature. He added that agreement was in process of negotiations for long time and that it had only been recently that any headway was made.

He continued that officials of concerned Ministries and Departments, including FonOff, will be dispatched shortly to Sinkiang to begin negotiations for conclusion of agreement.”

Repeated Canton 16, Tihwa 11, pouched Shanghai.

STUART

761.932/2-849 : Telegram

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

NANKING, February 8, 1949—10 a. m.

[Received 3:54 p. m.]

337. We queried Vice Minister, Foreign Office, ⁴ before his departure [for] Canton last week on press reporter [*report of?*] Chang

¹ For previous correspondence respecting Sino-Soviet negotiations regarding aviation rights, see *Foreign Relations*, 1948, vol. VII, pp. 729 ff., *passim*.

² Military and Political Affairs Director for Northwest China; Governor of Sinkiang, 1946-47.

³ Military and Political Affairs Director for Central China.

⁴ George K. C. Yeh.

Chih-chung's trip to Sinkiang (see Embtel 283, February 1, repeated American Consulate General Canton 16). Yeh confided that Chang Chih-chung was in fact going to enter into exploratory conversations with Soviet representatives in Ili area of Sinkiang to regularize present Soviet concessions that area and prevent further encroachment, if possible, Soviet influence in Province. He said there had been conversations [and] intermittent negotiations with USSR over its position of influence in Sinkiang for several years. He emphasized lack of real authority Nationalist Government has over Sinkiang and problem it has of effectively combating extension Soviet influence. Recent reports have reached Nanking that Soviet agents are moving among Sinkiang tribes outside Ili area. This report is apparently one of determining factors in attempting to reach agreement with Soviets now.

Yeh continued that from Soviet standpoint USSR would like to regularize and have recognized all of its concessions and privileges in Province acquired mostly under Provincial regime of notorious Sheng Shih-tsai.⁵ From Chinese viewpoint Nationalist Government would like to establish "cordon sanitaire" around Ili area to prevent, if possible, further Russian encroachment [and] influence on rest of Province. Present initiative, however, did not come from Foreign Office, Yeh declared. Chang Chih-chung on behalf of Cabinet undertook to explore situation and see what, if any, balance might be achieved Sinkiang by agreement with USSR now. Yeh denied that Chang's visit to Sinkiang would result in agreement between USSR and China, insisting that there was not yet any draft of projected agreement.

However, Philip Fugh⁶ had conversation with Chang Chih-chung before latter's departure for Lanchow which is less reassuring. It is the Soviets who are exerting pressure on Chinese to conclude agreement on Sinkiang, although last year when, with Generalissimo's⁷ agreement, Chang raised question Russians were not at that time interested. Three important terms of presently contemplated agreement in broad outline would, according to Chang, be as follows:

(1) Treaty of Commerce and Friendship including provisions for cultural exchange between Sinkiang Province and USSR.

(2) Rights to USSR for exploitation certain minerals Sinkiang.

(3) Withdrawal of Nationalist Government military personnel from Sinkiang and provision against re-entry of any military units into Province. Embassy will attempt to follow closely and keep Department promptly informed developments Chang's visit Northwest.

Sent Department 337; repeated office Embassy Canton 23, Moscow 14.

STUART

⁵ Governor of Sinkiang, 1940-44, after ruling Province since 1933.

⁶ Personal secretary to the Ambassador in China.

⁷ Chiang Kai-shek, who retired as President of the Republic of China on January 21, 1949.

761.932/2-849 : Telegram

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

NANKING, February 8, 1949—10 a. m.

[Received February 9—12:29 a. m.]

338. [To Consul at Tihwa :⁸] Please keep Embassy and Department promptly informed visit of Chang Chih-chung your area, including anticipated "exploratory talks" or actual negotiations with Soviet representatives on commercial treaty between Sinkiang and USSR. (ReEmbtel 283 to Department February 1, repeated Consulate General Canton 16 and Tihwa 11.)

Sent Tihwa 12; repeated Chungking 7, Department 338, Office Embassy Canton 24.

STUART

893.00/2-1549 : Telegram

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

NANKING, February 15, 1949—9 a. m.

[Received February 15—5:08 a. m.]

389. Following substance Tihwa Contel 29, dated February 11, 1949 :

Despite rumors to effect many central government troops to be withdrawn to inner China, only some 150 officers have moved from Tihwa area and these have gone Anhsi in northwest Kansu reinforce Ninghsia and Chinghai Moslem troops against combined Mongolian People's Republic and Chinese Communist attack expected possibly this spring. Suiyuan considered lost to CCP⁹ and southern Kansu indefensible, but intentions are defend Ninghsia, Chinghai and Kansu corridor at least as far south as Lanchow. Ma Chen-hsiang's Tungkan (Chinese Moslem) fifth cavalry army due move this area from Tihwa when needed for common effort with other Moslem forces. Ma Hung-kwei, Ninghsia Governor, will soon be appointed vice commander northwest army under Chang Chih-chung.

However, clear signs imminent increase Communist activity and influence Sinkiang province. Ili papers have dropped Central News Agency and now using North Shensi despatches.¹⁰ Soviet consent negotiate trade pact received by new province governor Burhan¹¹ 5 days after his appointment, after 4 years' silence on matter; but terms have not been set. Foreign Office representative Liu,¹² Amprov [*Provincial?*] Vice Commander Tao Chih-yu, and Burhan left Tihwa for Lanchow February 5 to discuss terms this pact with Chang Chih-chung. Chang may be expected choose side with best chance winning. (End summary Tihwa telegram.)

⁸ J. Hall Paxton.⁹ Chinese Communist Party.¹⁰ Latter Chinese Communist.¹¹ Also known as Pao Erh-han, Turki Governor of Sinkiang.¹² Liu Tse-jung.

Compare Embtel to Department 337 with above report.

This information matches up with report from controlled American source here that major purpose Chang Chih-chung's trip northwest was consolidate bloc with Ma Hung-kwei and Ma Pu-fang¹³ against CCP expansion whether in peace or war. This move in turn fits into strategy approved by Acting President Li¹⁴ and Premier Sun,¹⁵ of building regional regimes to contain Communism roughly north Yangtze River and east Suiyuan, Shensi borders. Chang Chih-chung and Chinese Government willing yield to Soviets economic and other implied concessions Sinkiang partially because they know Russia could seize such rights any time and has gone good way towards doing so through Ili regime and partially because they hope secure return concessions that will limit expansiveness both Ili and CCP governments, leaving central government sphere in northwest. (End controlled American source report.)

Embassy comment: Government officials very conscious how few cards they hold vis-à-vis Chinese Communists and in consequence every bit territory and power they do hold becomes commodity which they hope trade for advantages. Strategy developing regional regimes interestingly complemented by Communist development sectional governments within their sphere.

Sent Canton 61, repeated Department 389, Moscow, Kabul, New Delhi.

STUART

761.932/2-149 : Telegram

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

WASHINGTON, February 15, 1949—4 p. m.

215. Report any available info re alleged concession mineral rights to USSR in NW China or Sinkiang envisaged in prospective Sino-Russian Commerical Agreement (urtel 372 Feb 11,¹⁶ 338 Feb 8 and 283 Feb 1). Precise info needed as to nature of rights, territorial extent, duration, whether exploration and exploitation to be by Russian or joint Sino-Russ Co organized under Chinese law. Dept needs info to evaluate effect US rights under 1946 treaty.¹⁷

ACHESON

¹³ Governor of Tsinghai (Chinghai).

¹⁴ Marshal Li Tsung-jen.

¹⁵ Sun Fo, President of the Chinese Executive Yuan.

¹⁶ Not printed.

¹⁷ Treaty of friendship, commerce, and navigation signed at Nanking, November 4, 1946, Department of State, Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

661.9331/2-1649 : Telegram

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

CANTON, February 16, 1949—1 p. m.
[Received February 16—4:56 a. m.]

[Cantel] 50. Chen Tai-chu, director American section Foreign Office, gives me following on Sino-Soviet commercial agreement negotiations, Deptel 215, February 15 to Nanking, repeated American Embassy Canton 10. At time Soviet withdrawal Manchuria, they approached Chinese re negotiation Sino-Soviet commercial agreement which would deal mostly with trade between northwest provinces and Soviet Union. Negotiations that time broke down over question war booty and matter lay dormant until just prior move Government Canton when Soviets reopened issue. Chen surprised Soviet move this time yet authorized Chang Chih-chung explore possibility in northwest. Chen insists matter is still in exploratory stage and has promised keep me informed. I expressed hope he would bear in mind China obligations under our 1946 treaty when negotiating with Soviets.

Chen avoided my specific questions re mineral rights, contenting himself with saying treaty, as envisaged, would deal mostly with trade. I assume therefore that mineral rights are involved.

Sent Department 50, repeated Nanking 50.

CLARK.

893.00/2-1649 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, February 16, 1949—6 p. m.
[Received February 18—2:46 p. m.]

33. Following grist collected yesterday from several sources and cross-checked seems consistent though not officially confirmed: Burhan returned 12th leaving Garrison Commander Tao and army supply chief Hao in Lanchow. No publicity given to Hao's presence at conference. Burhan took no part in general chairmen's conference; only discussing with General Chang Chih-chung Sinkiang affairs, principally new currency plan.

This is to include new paper and copper currency issue, backed by 300,000 ounces of silver reserve, pegged at 4 to 1 with US dollar and supported by USSR under trade pact terms now being discussed here,

corroborating that no binding agreement yet signed even by General Chang, reference our A-2 to Embassy February 11.¹⁸

Over 100,000 Provisional [*Provincial?*] troops to be maintained by goods imported (Kansu supply being inadequate) from Central China via Chungking-Lanchow road for barter exchange. This would entail army monopoly of imports from China and probably currency exchange blockade rendering local money completely independent of National currency.

USSR hopes Sino-Soviet airline to be extended to Lanchow without competing service in Sinkiang. Soviet advisers to assist in development mineral and other economic resources.

Russia to seek no specific political concessions from Sinkiang if province not used as attack base and trade Sinkiang raw materials for Soviet manufactured goods continues beneficial. Although nothing yet heard from dissident zones, they are expected rejoin Provisional [*Provincial?*] Government after trade pacts signature without any open Soviet direction though obviously Russian influences still predominant these areas through 4 years full control, indoctrination and selection of officials as well as secret police cadre.

Although General Chang Chih-chung still in overall charge four northwest provinces, Tungkan's, [of?] Sinkiansu [*Sinkiang, Kansu*], Ninghsia and Tsinghai implacably anti-CCP but could perhaps accept limited cooperation with Russians. Latter might prefer keep northwest out of Chinese Communist control. Chang probably could arrange for CP not to cut Chungking road but in any case Tsinghai would long continue economically self-sufficient and in time Ma Pufang might improve relations with Tibet enough for transit essentials from India. General Ma Chen-hsiang of Fifth Cavalry Army with anti-Communist Kazaks eager join Muslim forces in east but Chinese wish them remain to control natives and also perhaps counter Soviet influence.

Russians reluctant offend American and British Governments by precipitate action and likely proceed cautiously with political control area pending outcome China struggle. They feel time working for them and if border cooperation secured can afford delay.

CCP attack now proceeding in eastern Kansu.

Foregoing collected from five separate contacts significant despite strange currency plans. Other items quoted as received without comment or interpretation.

*Repeated OffEmb Canton 4, Shanghai 49, Nanking 37, Chungking 10.

PAXTON

¹⁸ Not found in Department of State files.

893.00/2-2049 : Telegram

*The Consul at Tihwa (Paxton) to the Secretary of State*TIHWA, February 20, 1949—7 p. m.
[Received February 22—4: 47 a. m.]

36. Foreign Affairs Delegate Liu today gave following further information regarding matters discussed ourtel to Department 33, February 16:

Soviet representatives at Alma Ata talks last summer did in fact suggest extension of Sino-Soviet line to Lanchow but Liu neatly countered by proposing go right through to Central China. Russians heartily welcomed idea until Liu mentioned that, of course, it would require reciprocal Chinese airline to Moscow. This they rejected as impossible so subject lapsed on Soviet refusal.

At same meeting Liu obtained Soviet consent to many appointments of Chinese personnel including copilots (but not pilots) and air field superintendent. However, Communications Ministry has not yet assigned qualified personnel.

Chinese refused renegotiation at Moscow and Russia unwilling have it at Nanking; so in January after 2 months' delay Liu finally instructed by Foreign Office to discuss matter in Tihwa this month and now only awaits Soviet reply. He expects renewal airline agreement if USSR accepts Chinese minimum terms of which, of course, I could hardly press him for details.

Regarding trade pact, Liu promised information when agreement reached. He expected very simple written terms with details covered by oral understandings. Secretary General Liu,¹⁹ Vice Chairman Mohammed Imin and he have been busy conferring with Soviet representatives here for past week and anticipate further delay before full agreement reached. He positively declares nothing yet signed.

No change in currency can be effective in less than 2 months but divorce of provincial money from gold yuan now being planned with probability that if Sinkiang gold and silver, deposited in Nanking several years ago as backing for local currency at one to five rate with CNC²⁰ can be retrieved (Liu claimed ignorance its present whereabouts) effort will be made to issue new currency for area, perhaps including all four NW Provinces, possibly partly silver and copper coins. Although Tsinghai rich, it will not easily part with its wealth and still maintains strict embargo on exports of silver coinage while Ninghsia and Kansu poor.

¹⁹ Liu Meng-chuen.

²⁰ Chinese national currency.

Liu confirmed in general previous reports regarding amalgamation of dissident zones.

To protect my previous source, I did not discuss movements of troops or schemes for their payment.

Sent Department; repeated Nanking 40, Canton 5, Shanghai 54, Chungking 11.

PAXTON

761.932/2-2349 : Telegram

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

NANKING, February 23, 1949—5 p. m.

[Received February 24—2: 12 p. m.]

453. ReDeptel 215, of February 15. Sinkiang Governor Burhan announced through Central News Agency February 17 that Province seeking betterment relations with Soviet through resumption trade under terms agreement now under negotiation and will also issue local silver currency.

Original November 1944 draft Sino-Soviet economic cooperation pact Sinkiang, under intermittent discussion past 4 years, reliably reported [to] include provision for:

- (1) Sino-Soviet cooperation developing all known mineral resources Sinkiang;
- (2) Freedom trade between Sinkiang merchants and Soviet without Chinese Government intervention; Soviet trade representatives to act as sole Soviet agents commercial matters.
- (3) Special barter agreement between Sinkiang and Soviet Governments under which indicated amounts specific commodities exchanged in season by two governments.
- (4) Freedom Soviet truck caravans traverse Sinkiang for purposes trade free from customs duties, search, (approximately 50 characters garbled) stations connection therewith.

Foreign Office in late 1946 so vehemently condemned unprecedented terms proposed pact in light anticipated agreements other foreign powers that Chang Chih-chung prevailed upon hold conclusion in abeyance. Discouraging outlook Nationalist cause summer 1948 and Chang's pressure for pact to prevent Sinkiang revolts caused renewal Chinese interest such pact and Soviets found favorably inclined. Draft along above lines by Nationalists offered Soviet Consul [at] Tihwa, October 1948; January 6 Soviet Consulate General, Tihwa, reportedly agreed in principle signature such accord.

What Chang considered bright outlook his own participation negotiated peace excited his long-time wish for conclusion Sinkiang pact to provide international agreement entered into by Nationalists to

which CCP could not vehemently object without compromising CCP position vis-à-vis Soviets and which could be balanced off against other international commitments, namely Sino-American Commercial Treaty. Recent disintegration Chang's prominence as possible peace delegate accompanied by personal loss enthusiasm favoring immediate conclusion pact, but he, nevertheless, deputized Foreign Commissioner Liu Tse-jung, Secretary General Liu Meng-chuen, and Vice Governor Mohammed Imin negotiate remaining technical details in draft. Channels for conclusion pact additionally lubricated by appointment Burhan [as] Governor who reportedly has facilitated secret trade treaties for four ex-Governors [of] Sinkiang.

Essential distinguish legal phraseology any agreement concluded and actual Soviet economic activities under guise such pact. Chang seems largely discard objections regarding international complications such agreement and to emphasize need via pact maintain minimum Chinese interest and control Sinkiang by meeting economic demands its most diverse people and mollifying Soviet. He apparently would retain at any price China's legal sovereignty Sinkiang which he thinks threatened. Foreign Office may be counted on oppose agreement which *de jure* concedes too much, but in Government's present position would probably be forced blind [*blink?*] at penetrating *de facto* monopolistic activities by Soviets. Understand Soviets now in North Sinkiang mining regions of separatist areas Altai, Ili "co-operating" with Chinese in joint companies wherein Chinese figure-heads dominated by Soviet chief engineers.

While term "cooperation on equal basis" or its equivalent may appear text pact, in reality conclusion will mean legal cover for Soviet mining trade monopolies. Furthermore, agreement could be signal for extension revised air agreement along lines old Hami-[Alma]Ata agreement recently denounced by Chinese and which was in effect Soviet monopoly.

One deterrent Soviet side may be reluctance chance estrangement Soviet-CCP relations and surely Soviet will sound out CCP leaders prior signing or else write terms so deftly as not compromise CCP domestic and international position.

In summary, according to Embassy's best information, contents draft treaty disturbing (even though it might merely serve to regularize *de facto* position) and if under active negotiations but not yet signed. Ambassador plans discuss subject with both Chang Chih-chung and Li Tsung-jen on their return to Nanking and Embassy will keep Department informed.

Sent Department 453; repeated Canton 97, Tihwa 20, Moscow 17.

STUART

661.9331/2-2549 : Telegram

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

NANKING, February 25, 1949—5 p. m.

[Received February 25—9:01 a. m.]

468. Chang Chih-chung informs us trade pact may be concluded week or 10 days (Tihwa's 36, February 22 [20], repeated Nanking 40). In view possible inclusion provisions detrimental US interests, Department may wish to instruct Tihwa direct endeavor obtain fullest details possible prior conclusion and to make such representations to Liu as Department may consider pertinent (see Embtel 453, February 23) on basis Sino-American Treaty Commerce [and] Friendship. Embassy has in mind particularly article 5 referring to exploitation mineral resources but there may be other pertinent provisions which will occur to Department.

Sent Department 468, repeated Canton 103.

STUART

661.9331/2-2549

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Secretary of State and the Under Secretary of State (Webb)

[WASHINGTON,] February 25, 1949.

Persistent reports have been received from our offices in China elaborating on the announced intention of the Chinese Government to negotiate a trade agreement with the Soviets over Sinkiang Province (in Northwest China). [Here follows information contained in telegrams from the Ambassador in China, Nos. 337, February 8, 10 a. m., page 1037, and 389, February 15, 9 a. m., page 1039, and from the Consul at Tihwa, No. 36, February 20, 7 p. m., page 1043.]

It would appear that while there would be certain temporary benefits to the National Government from the conclusion of a Sino-Soviet trade agreement over Sinkiang (although the long-term, Trojan horse aspects of such an agreement can hardly be overlooked), little advantage would accrue to the Chinese Communists. The reported haste of the Soviets in pressing for an agreement at this time would seem to indicate that they are anxious to legalize and fortify their status in Sinkiang while there is still a National Government with which to deal and, conversely, that they may wish to secure these special interests from a National Government which is fast dwindling in power and prestige rather than to risk waiting to deal with a Chinese Communist regime which is just beginning to flex its international muscles and in whose complete subservience the Kremlin may not have full confidence.

It may also be that Russia is being motivated in her actions by her traditional apprehension of a strong, united China to her south and is therefore not averse to bolstering the National Government (while at the same time securing additional concessions for herself) just at the time when the Communists appear to have the military capability of destroying the National Government on the Chinese mainland. Even if the Chinese Communists have been fully apprised of Soviet intentions in Sinkiang and have been cajoled or forced into acquiescing to the present negotiations, the action of the Soviets in negotiating at this time a long-term agreement with the National Government involving special rights to the USSR would seem to indicate something less than comradely trust between the Chinese Communists and Moscow.

W. W[ALTON] B[UTTERWORTH]

661.9331/2-2549 : Telegram

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

CANTON, February 25, 1949—5 p. m.
[Received February 26—3:40 a. m.]

[Cantel] 81. Director American section Foreign Office, who seems familiar whole problem Sino-Soviet trade negotiations, insists that only very preliminary discussions have taken place and that nothing can be consummated without Foreign Office approval (Nanking's 97, February 23, repeated Department 453, Tihwa 20, Moscow 17). In answer to his inquiries as to our interest, I said we wanted to protect rights under our treaty and we hoped they would not suffer, among other things, through formation of Sino-Soviet companies which would in reality be Soviet, as has been the air line. He again promised to keep me informed of developments, my [Cantel] 50, February 16, repeated Nanking 50.

Sent Department, repeated Nanking 78, Tihwa 1, Moscow 1.

CLARK

661.9331/2-2749 : Telegram

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

CANTON, February 27, 1949—noon.
[Received—8:17 p. m.]

[Cantel] 85. Sun Fo insists initiative Sino-Soviet trade talks was taken by Soviets. Although negotiations are being carried on by Liu in Tihwa under direction Chang Chih-chung, no commitments can be

made, Sun said, without Foreign Office approval. (See Cantel 81, February 25, Nanking 78, Tihwa 1, Moscow 1.)

Soviets are seeking a return to the barter arrangements which existed under Hsiung Hsih-hui²¹ which permitted normal two-way trade across border. Under new arrangements Soviet monopolies would be dealing with individual merchants on Chinese side. At that time Soviets had already drilled and found oil, but had later capped wells as no market available. They are seeking now, Sun said, a revival of not only the right to drill for oil, but also to prospect for and exploit "colored and scarce minerals".

Soviet discussions did not, he said, envisage joint Sino-Soviet companies for exploitation mineral resources northwest but rather separate Soviet and Chinese corporations which would cooperate with each other in such exploitation. Sun said Chinese interested significance Soviet desire for separate companies and are inquiring further.

Sent Department 85; repeated Nanking 82, Tihwa 2, Moscow 2.

CLARK

661.9331/3-149 : Telegram

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

NANKING, March 1, 1949—10 a. m.

[Received March 1—4:40 a. m.]

494. Re Embtels 453, repeated AmEmb Canton 97, February 23 and 468, repeated AmEmb Canton 103, February 25. President Li has made following points for Ambassador's information: Sinkiang pact by no means concluded. Under pact Soviets would promise finance supply technical assistance mining tungsten, oil, other minerals. Two countries would divide various enterprises so that when Chinese chairman of board, Russian would be manager and vice versa. Li's opinion presently that treaty relations with USSR re Sinkiang are preferable to uncontrolled exploitation.

Latter opinion jibes with that held by Chang Chih-chung (Embtel 453) and reinforces our impression that Soviets will control mining companies in view very weak technical and managerial representation Chinese interests Sinkiang, a condition reflected in past effective control Hami-Ata airline by Soviets. Li's remarks seem to give lie to Chang's denials to press that pact would include any significant provisions re mineral exploitation. Chang seems continue publicly to minimize international implications of agreement and slough off US fears as merely misunderstanding of Sinkiang politics.

Sent Department, repeated AmEmb Canton 121.

STUART

²¹ Probably Sheng Shih-tsai, former Governor of Sinkiang.

661.9331/3-149 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, March 1, 1949—3 p. m.
[Received March 3—10:58 p. m.]

48. Rumored General Chang has blanket authority approve trade pact without further reference Central Government. If agreement found embarrassing, Central Government might consider special status northwest provinces. From here this seems possible direction events.

Local gossip that trade to be with Chinese Government monopoly not individual merchants rendered plausible by probable reluctance local officials sacrifice rich revenues obtainable through handling, reference Cantel to Department 85, February 27.

March 1 Aisabek²² in strict confidence claimed draft treaty not yet agreed on includes freedom Soviet trucks from any examination as well as permissive trade with Sinkiang merchants despite loss official revenue and chance for graft.

Proposed duration trade pact 20 or 50 years but he felt even shorter time would permit Soviet absorption area before expiry.

Autonomy party now includes: Turkis-Mesud, Mohammed Imin, Aisabek and Yolbars of Hami; Kazaks-Osman, Kalibek, Tatawan and Jaminkhan (last named has reconciled differences with other Kazaks but he and Tatawan considered weaker than rest); and small group younger Turkis of less experience but much promise. They expect General Ma Chen-hsiang's entire fifth division cavalry army to remain Sinkiang and give them support based on backing of his uncles, chairmen Tsinghai and Ninghsia. Reduction man [*Ma's?*] troops probable but not their complete evacuation (conference all Sinkiang brigade commanders now in session Tihwa and hope for data shortly). If necessary Ma Chen-hsiang plans set up fastness near Qotien²³ for all anti-Soviet elements Sinkiang.

Aisabek implores American aid block trade accord which would hand over Sinkiang as chattel to USSR against bitter opposition natives. He believes pact will have *pro forma* approval of Central Government as General Chang, though apparently empowered act independently, intends submit it.

March 2 Foreign Affairs delegate Liu gave following replies my questions: Chinese definitely made first approach on trade pact (see also Ward's²⁴ despatch to Department 50, November 10, 1946²⁵).

²² Former Secretary General of Sinkiang Provincial Government.

²³ Possibly Hotien (Khotan).

²⁴ Robert S. Ward, Consul at Tihwa, 1944-47.

²⁵ Not printed.

On Sheng's expulsion of Russian advisors, China bought equipment, Wusu oil wells from Soviet Union (apparently still producing in April 1947 when we passed and not yet reported capped. Sinkiang constant market for petroleum products as nearest refinery under Chinese control Sewe [*some?*] 700 miles east Tihwa at Yumen in Kansu).

Present plans are for commercial transactions between Soviet organization and larger Chinese firms as well as provincial trading organization. Liu rejected as absurd suggestion that customs inspections on trucks entering Sinkiang might be waived, stating with heat that area was still Chinese and as Central Government official he would not be party thus signing away national rights. As for diversion customs revenue to provincial use, he implied possibility by asserting domestic matters included Sino-Soviet discussions.

He said question mineral exploitation or reconstruction cooperative companies, either separate or joint Sino-Soviet, not yet considered and would not arise until trade agreement settled which could not be very soon as draft must be referred to Central Government for approval which would probably take some weeks at least. He has also, however, previously averred go [*no?*]. discussions re Sino-Soviet air line re negotiations would occur for sometime but Sinkiang news agency March 1 reports Soviet delegation of six under Avseevich, Vice Chief Civil Air Affairs, arrived here February 28, to draft new air line pact.

Liu regretted inability reveal more details current talks but stated he had received two warnings from Foreign Office to hold them in strict confidence (perhaps particularly from US). However, even his guarded comments appear illuminating.

Sent Department; repeated Nanking 49, OffEmb Canton 11.

PAXTON

661.9331/3-249: Telegram

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

CANTON, March 2, 1949—9 a. m.

[Received March 2—4: 45 a. m.]

Cantel 91. Chen Tai-chu, director American section FonOff, sent for me re Sino-Soviet trade talks. He confirmed what Dr. Sun Fo had told me re barter and mineral exploitation, my [Cantel] 81, February 25, repeated Nanking 78, Tihwa 1, Moscow 1, but said Dr. Sun was mistaken regarding separate Soviet and Chinese corporations.

He began by stressing that negotiations were being carried on by China in respect of region Ili, Tacheng and Anshan, where Soviets were already largely in control and where Chinese could not afford to be too firm without prejudicing their sovereignty. Although he would

not elaborate, he thought implications Soviet approach trade negotiations those areas this time most interesting. He confirmed that Chinese took initiative in earlier negotiations but insists initiative these negotiations, which began February this year, had been Soviet. Chinese were reluctant agree that under barter arrangements Soviet monopolies would deal with individual traders on China side and were planning creation special corporation or corporations to deal with Soviet monopolies. This may have been, he said, what Dr. Sun had in mind when he spoke of separate corporation. Also, Soviets desire that barter encompass everything and Chinese desire name specific commodities. Exploitation of mineral resources in area had, under old arrangements, been under joint Sino-Soviet companies and, in fact, he understood exploitation in some form is taking place now. Chinese would hope that Sino-Soviet corporation would be on 50-50 basis and that it will be possible Chinese participation would be more effective than hitherto. Here also Chinese hoped to specify minerals to be exploited rather than agree to broad terminology suggested by Soviets. Once again he reminded me, however, that China is not in strong position to argue.

In answer to his inquiry, I told him our main interest was to assure our rights under our 1948 [1946] treaty.

Sent Dept repeated Nanking 85, Tihwa 3 and Moscow 3.

CLARK

661.9331/3-149 : Telegram

*The Secretary of State to the Ambassador in China (Stuart)*²⁶

WASHINGTON, March 2, 1949—6 p. m.

283. On basis info available re Sino-Sov trade past (urtels 468 Feb 25, 494 Mar 1, and Deptel 215 Feb 15) Dept unable determine effect on US rights 1946 treaty. Hence you shld not in conversations with Chinese take categorical position. For your info treaty in such cases in general provides for mfn²⁷ rights, and at most US old reserve right to claim on behalf US natls right under treaty to same or similar rights conceded to Sovs; shld mineral concessions to Sovs be exclusive and for long period this might indicate Chinese wld be unable accord US Natls treatment to which entitled by treaty with respect to mineral resources that area and thus might in sense be infringement treaty. See Arts IV, V, and XX of 1946 treaty. You shld not state this to Chinese unless further instructed but shld merely indicate in response queries our interest in Sino-Sov agreement that since our treaty pro-

²⁶ Repeated to the Minister-Counselor of Embassy at Canton as telCan No. 37 and to the Consul at Tihwa as No. 23.

²⁷ Most-favored-nation.

vides mfn treatment we are of course interested in concessions to third parties (Canton pls note).

Arts 1946 treaty most likely be affected by other provisions Sino-Sov Agreement are Arts III, X and XVI.

Tihwa pls report full details final provisions agreement, especially those relating customs treatment Sov trade with Sinkiang and question mineral rights.

ACHESON

761.9327/3-849 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, March 8, 1949—6 p. m.
[Received March 9—9:49 a. m.]

56. Have approached several contacts on matter Sino-Soviet airline re negotiations [()reference penultimate paragraph our telegram to Department 49, March 3,²⁸ and Nanking telegram to Department 516, March 4²⁹) including subordinate of Foreign Affairs delegate Liu and gleaned following: Liu's assistant confirmed arrival 5 not 6 Soviet delegates and said Liu and Chinese manager airline office appointed Chinese delegates and that 2 or 3 other Central Government representatives were to come soon perhaps by plane due 11th.

Another informant again mentioned Soviet request for extension line to Lanchow. If granted USSR would thus control line of strategic airfields (in Horgos, Ili, Tihwa, Hami and Kansu panhandle to Lanchow including several emergency fields) pointing well into China which could be used both for air transport and to hold roads along route.

Liu's subordinates stated 1 or 2 weeks' delay now probable before conclusion trade pact, much sooner than previously reported. Each section is being separately telegraphed to both governments for approval. Current [text?] might accordingly be available at Canton. Apparently agreement in principle already reached on trade pact, at least locally, and now mere haggling over phraseology. Chinese here appear unlikely accept any dubious clauses without recognition of possible implications.

Liu's man further said mining rights now being discussed (which Liu had denied), adding that China could save few of these in three dissident zones as Russia was never interested in negotiations except for special privileges but China now had no choice particularly in Sinkiang [in] view current weakness.

²⁸ Not found in Department of State files.

²⁹ *Ante*, p. 744.

He mentioned in passing other Sino-Soviet economic cooperative plans as also under consideration. I did not follow this up at time in order not to disturb him, but merely asked he pass to Liu as my suggestion that data might come through him to quiet Soviet suspicions of Liu's talking too much to me (constantly assumed this spy-ridden place all contacts known to Russians) which he promised to do and felt response might be favorable. This assumption that Liu favorably disposed thus to give me information he could not otherwise provide may be without factual foundation but might work.

Sent Department, repeated Nanking 55, Embassy Canton 16.

PAXTON

761.9327/3-1449 : Telegram

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

CANTON, March 14, 1949—2 p. m.
[Received March 14—5 : 10 a. m.]

Cantel 136. FonOff confirms arrival Tihwa Soviet air experts to negotiate extension Sino-Soviet air agreement. Director American Department says Minister Communications will conduct the negotiations with Commissioner Foreign Affairs, Tihwa, Liu, present. Chen indicated Chinese seek greater participation operation, but was not informed re monopolistic provisions. Shall inquire Minister Communications this regard.

Sent Department; repeated Nanking 115, Shanghai 82.

CLARK

661.9331/4-1549 : Telegram

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

CANTON, April 15, 1949—noon.
[Received April 16—1 : 44 a. m.]

Cantel 219. George Yeh says he accepted position Acting Foreign Minister only after assurances from Li Tsung-jen and Ho Ying-chin³⁰ that effort Chang Chih-chung to speed up negotiations Sino-Soviet trade pact be resisted and no further action taken thereon so long as he was Acting Foreign Minister. Yeh said Chang Chih-chung was proposing accord Soviets mineral rights in contravention Chinese law and interests and under condition which in view China's treaty

³⁰ General Ho succeeded Sun Fo as President of the Chinese Executive Yuan in March, 1949.

obligations might prove embarrassing. Accordingly, Sino-Soviet trade negotiations had stopped for time being.

Sent Department, repeated Nanking 193, Shanghai 141.

CLARK

761.9327/4-1949 : Telegram

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

NANKING, April 19, 1949—2 p. m.

[Received April 19—5:54 a. m.]

791. April 15, L. K. Shaw (Hsiao Li-kwun), Chief of section, Chinese CAA,³¹ in friendly call on Embassy officer asked for letter introduction American Consul, Tihwa. Shaw proceeding Tihwa as single Ministry Commerce representative Sino-Soviet airline talks. He said another representative was to accompany him but Ministry decided single delegate sufficient. Shaw said reports 25-year pact planned erroneous but Soviets do seek 20-year term. He thinks agreement will be reached; expects remain Tihwa 6 to 8 weeks.

Requested letter introduction to Paxton given Shaw, who insisted letter include no reference his mission because he merely hoped seek relaxation in social intercourse at Consulate. In past, Shaw not too hesitant reveal certain details other negotiations by Chinese especially Chinese position, and should he present letter Consul probably can learn progress negotiations. Speaks English well, visited US twice, once very recently and attended international aviation meetings Geneva.

Re Shanghai's 1097 to Department,³² repeated Nanking 641, Cantel 237, Tihwa 80. Shaw claimed proposal Soviet planes fly Shanghai return for grant reciprocal permission Chinese planes fly London via Soviet his own idea to provide useful service for Convairs purchased by CATC.³³ He agreed limited demand Shanghai-Moscow, but thought Shanghai-London via Soviet would meet sizable paying demand. He said idea dropped for present but probable effective use Convairs remains.

Sent Tihwa 34; repeated Department 791, Shanghai 393, Embassy Canton 265.

STUART

³¹ Civil Aeronautics Administration.

³² Not printed.

³³ Central Air Transport Corporation.

761.9327/5-1649: Telegram

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

NANKING, May 16, 1949—2 p. m.

[Received May 16—7:09 a. m.]

1035. Shanghai radio reported May 11 Sino-Soviet Hami-Ata air agreement renewed for 5 years, but Tihwa's 115 to Department, repeated Embassy Canton 40, May 9 [5]³⁴ indicates draft still not approved. Suggest appropriate inquiry by Embassy Canton as to status this and economic cooperation pact with Soviets.

Conclusion either [or] both such pacts would seem good opportunity for public discussion, and inquiry—through Department or other information channels—whether CCP intends comment such pacts with USSR along lines criticism Nationalist Government agreements with US and others. Does CCP evaluate these new pacts with USSR as another concession by Kmt “running dogs of imperialism”? Simultaneous widespread broadcast terms of pact, if available, perhaps comparing them with terms Sino-US agreements related fields, also believed worth Department's consideration.

Sent Department, repeated OffEmb Canton 423, Tihwa 38.

STUART

761.9327/5-1849: Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, May 18, 1949—2 p. m.

[Received May 19—12:21 p. m.]

127. Lou, Assistant to Foreign Affairs delegate, declares positively he has been present at all meetings discussing air pact and it has not yet been signed pending Moscow's approval 5-year renewal same terms (reEmbTel to Department 1035, May 16, and third paragraph ourtel to Department 115, May 5³⁵). Since proposed by Chinese Government Soviet approval alone needed. However, Lou hinted intimate connection between status air and economic pacts (originally General Chang's idea) and Chang's continued stay Peiping.

Tao has returned from Lanchow (reourtlet to Department 121, May 11³⁴).

³⁴ Not printed.³⁵ Latter not printed.

Department please pass ourtel to Department 115, May 5 to Shanghai as Tihwa's unnumbered.

Repeated OffEmb Canton 46, Nanking 94, Shanghai 114.

PAXTON

761.9327/5-2349 : Telegram

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

CANTON, May 23, 1949—6 p. m.
[Received May 23—10:16 a. m.]

Cantel 452. After inquiry many quarters including Minister Commerce, I gather following is story re Sino-Soviet air pact renewal: Chang Chih-chung was authorized negotiate Soviets. Confronted with strong Soviet insistence for mere renewal pact 5 years, he agreed. Foreign Office objected, with result Soviet Ambassador³⁷ inquired whether Chang Chih-chung was or was not authorized speak for Chinese Government. At Cabinet meeting it was decided Chang had been authorized and Government must approve his action. Confronted Soviet insistence there was little else to do. Foreign Office specialists on re-study pact have decided only monopolistic feature is traffic Hami-Alma-Ata and that Chinese Government is free negotiate similar air services any one country including US on any other routes northwest. It is anticipated pact will be extended this week unchanged for 5 years.

Sent Department Cantel 452, repeated Nanking 315, Shanghai 268, Tihwa 8.

CLARK

761.9327/5-2749 : Telegram

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

CANTON, May 27, 1948—8 a. m.
[Received May 27—5:28 a. m.]

Cantel 483. Foreign Office confirmed today renewal Sino-Soviet air pact unchanged for 5 years, Cantel 452, May 23, repeated Nanking 315, Shanghai 268.

Sent Department Cantel 483, repeated Nanking 331, Shanghai 286.

CLARK

³⁷ N. V. Roschin.

761.9327/5-3049 : Telegram

*The Consul at Tihwa (Paxton) to the Secretary of State*TIHWA, May 30, 1949—7 p. m.
[Received May 31—12:57 p. m.]

139. Lou states Sino-Soviet air pact renewal for 5 years unchanged, as anticipated ourtel 127, May 18 and Cantel 452, May 23, both to Department, to be signed tomorrow. As Soviet approval other agreements dependent apparently only on this, their signature also expected shortly, Chinese National Government approval having either been already obtained or perhaps deemed no longer essential.

Preparations for trade seem complete. No further details re terms of other pacts, present attitude of Ili dissidents or prospects their return to provincial government yet available.

Sent Department 139, repeated Canton 56, Nanking 100, Shanghai 116.

PAXTON

501.AJ Treaties/6-349 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*NANKING, June 3, 1949—noon.
[Received 11:31 p. m.]

1183. Re Tihwa's 139 to Department. Assume Chinese Government expects register with United Nations terms any and all agreements concluded over Sinkiang.

Sent OffEmb Canton 486; repeated Department 1183, Tihwa 39.

STUART

661.9331/6-2249 : Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, June 22, 1949—11 a. m.
[Received June 22—6:21 a. m.]

Cantel 630. Inquiry FonOff reveals Sino-Soviet trade discussions remain standstill, Cantel 219, April 15; repeated Nanking 193, Shanghai 141.

Sent Department, repeated Nanking 421, Shanghai 361.

CLARK

693.0031/7-849 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, July 8, 1949—2 p. m.

[Received July 10—10:52 p. m.]

181. Nephew of Ma Pu-fang, Lt. General Ma Cheng-hsiang, 36-year-old Tungkan commanding Fifth Cavalry Army, says conclusion Sinkiang-Soviet trade and related pacts now impossible. He states anti-Communist plans for economy of province could replace Russian proposals if essential commercial supplies were delivered Lanchow for transportation here by trucks on hand.

He stresses cheapness of investment required to safeguard provincial economy and thus help prevent Soviet expansion to borders of China proper at Kansu. He avers anti-Communists nowhere more determined than this region; vouches for no Tungkan defections here; and voices opinion few Han gen[eral]s in Sinkiang pro-Communist though most more timid and less forthright than Tungkan military. Ma states that American specialists will eventually be welcome for development area's resources but fears if they should come now this open frustration of Soviet hopes might result in early armed attack from Ili or Outer Mongolia with Red Army support beyond present power of provincial forces to resist.

Consulate would appreciate information whether responsible American is now Lanchow for liaison with Ma Pu-fang who could assist in correlation and expedition most needed supplies for Sinkiang. If not, appointment such person might be most helpful.

Sent Department, repeated Nanking 112, OffEmb Canton 72, Chungking 31.

PAXTON

661.9331/8-849 : Airgram

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

CANTON, August 8, 1949.

[Received August 24—5:11 p. m.]

A-43. Subject: Recent developments in Sinkiang, China.

Successful conclusion of Sino-Soviet negotiations in Tihwa for the resumption of trade and economic cooperation in Sinkiang Province and preparations for the possible withdrawal of part of the Nationalist troops from that Province were reported by the Chinese Maritime Customs' representative in Tihwa, Mr. Hsiung Ta-lun, to the Inspector-

General of the Chinese Maritime Customs, Mr. L. K. Little, in a series of confidential letters from July 15 to July 25, 1949. The gist of Mr. Hsiung's statements is given in the following paragraphs:

Negotiations for trade resumption and economic cooperation between Sinkiang and Russia progressed so well that by the end of June, 1949, draft agreements on those two matters were almost completed. At this time, however, the Chinese delegates were telegraphically instructed by Central Government at Canton to suspend all discussions pending the receipt of new instructions.

According to a reliable source, the new instructions directed the renewal of talks on the resumption of trade but ordered that negotiations for economic cooperation (dealing mainly with the opening of mines) should be left in abeyance until the Central authorities had made certain basic policy decisions.

Discussions on a trade pact were accordingly resumed and about July 20, 1949, a draft trade agreement was completed for submission to the two Governments. The Soviet representatives announced that, although they had agreed to the draft of the trade pact, they would not sign this agreement until the issues under dispute concerning the opening of mines were settled and unless an agreement for economic cooperation was simultaneously signed.

Later, however, the Soviet delegates abruptly announced their willingness to accede to the conditions insisted upon by the Chinese delegation and requested immediate resumption of negotiations. In view of the Soviets' concessions, the talks were resumed and a draft agreement on economic cooperation was smoothly completed. The draft agreements on trade resumption and economic cooperation have been forwarded to the respective governments for approval but the Soviet delegates still hold to their declaration that both agreements must be signed at the same time. Further action on these matters will, in any case, be taken in Canton and Moscow—not in Tihwa.

The preceding account of these negotiations is, of course, in direct contradiction to the statement of Mr. George Yeh, Acting Foreign Minister, that he accepted this post only after receiving assurances from General Li Tsung-jen and General Ho Ying-ch'in that General Chang Chih-chung's attempt to hasten Sino-Soviet trade negotiations in Sinkiang would be resisted and that no further action would be taken thereon during Mr. Yeh's tenure of office. (Cantel 219, April 15, 1949.)

Moreover, the Foreign Office has consistently denied on several later occasions that these negotiations had been resumed. (Cantel 630, June 22, 1949.)

Rumors are again rampant in Tihwa that there will soon be local political and military changes and that some Nationalist troops are being withdrawn from Sinkiang.

Although the report of actual troop withdrawals is unconfirmed, it is reliably stated that preparations for the withdrawal of troops are being made by the military. Repairs to highways are being carried out by military and highway authorities, particular attention being given to the highways in southern Sinkiang: From Yu-t'ien to Lo-ch'iang thence to Tun-huang and An-hsi in Kansu Province. Arrangements are also being made to establish military supply stations at the above-mentioned places. This route, when properly repaired, may be used either for the withdrawal of Nationalist troops from southern Sinkiang to the interior or for the retreat of troops from Kansu to Sinkiang.

Insofar as the Ili "rebel" elements are concerned, no prospects are seen for their participation in the Sinkiang Provincial Government in the near future. On the basis of recent exchanges of correspondence between General Chang Chih-chung and the Ili authorities, the latter apparently still consider that the Central Government has been insincere in carrying out the terms of the peace agreement. Moreover, the appointment of Mr. Pao Ehr-han³⁸ as Governor of Sinkiang has not made them more conciliatory, despite their nomination of him for this office.

The heads of the Central Government Administrations in Tihwa meet once a week to discuss the general political and military situation in Sinkiang. Their consensus is that the Province's condition is most critical. While optimists at present regard steps for the removal of these administrations from Sinkiang as premature, pessimists believe that these agencies will be unable to withdraw when the situation deteriorates further and routes from Sinkiang to the interior of China are cut off.

CLARK

693.0031/7-849: Telegram

The Secretary of State to the Consul at Tihwa (Pawton)

WASHINGTON, August 10, 1949—8 p. m.

112. Re urtel 181, Jul 8. After inquiry Dept unable suggest any Amer at Lanchow suitable for work mentioned. However further consideration this question, including possible appointment outside

³⁸ Also known as Burhan.

person, would need await clarification mil and communications situation, reportedly deteriorating, in that area.

ACHESON

661.9331/8-2349 : Telegram

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

CANTON, August 23, 1949—5 p. m.
[Received August 23—10:39 p. m.]

Cantel 1007. George Yeh, Acting Foreign Minister, confirms press reports that Chinese are suggesting Soviets' conclusion northwest border trade pact, but have refused this time conclude economic agreement which involves exploitation Chinese natural resources.

CLARK

893.00 Sinkiang/8-3149 : Telegram

The Vice Consul at Tihwa (Mackiernan) to the Secretary of State

TIHWA, August 31, 1949—9 a. m.
[Received September 1—12:28 p. m.]

242. Political summary August 13 to 30. Sinkiang. American Consulate Tihwa closed to public August 16. British Consul General says some provisional [*Provincial?*] government officials passing rumor that closure was at request Soviet authorities. Paxton says same story circulating Kashgar.

Route to India via Gilgit and to Afghanistan via Wakhan [*Wacha?*] closed about August 24 due banditry vicinity. Tash Qurgan and Leh route still open.

Most White Russians and many Chinese officials Tihwa trying leave Sinkiang either via Kashgar or Kansu, otherwise events latter province causing little stir here. Prices remain stable.

Chinese Air Force reducing staff here, first group left August 28. No other significant military activity.

Ex-Secretary General Aisabek now Hami en route Tihwa.

Kansu. Provisional [*Provincial?*] government established at Chang-yeh. Kansu corridor cities crowded with refugees, food scarce. On August 26 Lanchow fell to Chinese Communists' troops; latter reported at Yungteng August 29.

Ma Pu-fang and family reported going Taipei.

Sent Department 242, repeated OffEmb Canton 109, Nanking 128.

MACKIERNAN

893.00 Sinkiang/8-3149 : Telegram

The Vice Consul at Tihwa (Mackiernan) to the Secretary of State

TIHWA, August 31, 1949—10 a. m.
[Received September 1—12:19 p. m.]

243. Following information from Foreign Affairs delegate Liu during conversation August 30.

Liu says situation Sinkiang very grave. He expects Ili troops take over Tihwa and other unoccupied portions Sinkiang as soon as formation new Chinese Communist Central Government (expected about September 8) is announced. He states takeover will be unopposed and thinks Tungkan troops under General Ma Cheng-hsiang and Han Yu-chen are planning early retreat to Tsinghai or India. He believes Chinese Communists will not cross Sinkiang-Kansu border, but will leave Sinkiang in hands of Ili group.

Re Chinese Communist Central Government, Liu believes USSR will extend recognition soon as government formed. He expects Madame Sun Yat-sen will play important part in new government.

View Liu's close contact with Soviets here and past record truthful dealings with American Consulate, his remarks may have some weight.

Sent Department 243; repeated OffEmb Canton 110, Nanking 129.

MACKIERNAN

893.00 Sinkiang/9-2549 : Telegram

The Vice Consul at Tihwa (Mackiernan) to the Secretary of State

TIHWA, September 25, 1949—8 a. m.
[Received September 26—8:40 a. m.]

277. Foreign Affairs delegate Liu officially informed at 5 p. m. today that the military, civil officials and the officials of the Provincial Government have today September 26 [25], severed all connection with the Chinese Central Government Canton and have accepted the authority of the Chinese Communist Government at Peiping. He further stated officially that all foreign residents in Sinkiang would be protected, as in the past, to the best of the Government's ability. Unofficially Liu stated belief that there would be no violence. He said question of when Chinese Communist troops would enter Sinkiang not yet settled.

Sent Department 277, Department pass Canton 115.

MACKIERNAN

893.00/10-2849 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, October 28, 1949.

[Received October 28—11:01 a. m.]

1317. Embtel 1273, October 22.³⁹ Delhi *Hindustan Times* October 28 under dateline Srinagar 27th published following despatch of which portion reads as follows:

"Members of the US Consulate in Sinkiang⁴⁰ who arrived here after a tortuous 71-day journey said yesterday that the recent political changes in Sinkiang were due to a small but powerful group of Communist sympathizers.

"They held the mass of Sinkiang population to be 'largely indifferent' both to Red propaganda and the Kuomintang's efforts to win their loyalty.

"When the Consulate members left Urumchi the capital of Sinkiang in anticipation of the Communist advance, conditions in Sinkiang were generally quiet though the Communists from their strongholds in northern Sinkiang were trying to extend their influence to the south. At that time the Kuomintang-appointed Governor Burhan was still in power."

DONOVAN

³⁹ Not printed.

⁴⁰ For further correspondence regarding closing of Consulate at Tihwa, see vol. VIII, "Decision to close Consulates in Nationalist-held China . . .".

STATUS OF TIBET: ¹ CONSIDERATION OF POLICY OF THE UNITED STATES IN VIEW OF TIBETAN CLAIM OF INDEPENDENCE AND DANGER TO TIBET FROM COMMUNIST-DOMINATED CHINA

693.0031 Tibet/2-1749 : Airgram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, February 17, 1949.
[Received March 4—3 : 13 p. m.]

A-168. Reference Embassy's despatch no. 35 dated January 8, 1949,² entitled "Visit to New Delhi of Tibet Trade Mission".

Tibet Trade Mission has now returned to Delhi from Calcutta and has been carrying on negotiations with GoI³ regarding desire of Government of Tibet to obtain dollar exchange to buy gold to be used as backing for Tibetan currency. According to Mr. V. M. M. Nair, Deputy Secretary, Ministry of External Affairs, GoI, despite strong line taken by Mission, is not disposed to comply with Tibetan request for dollar exchange. Two reasons why GoI does not look with favor on Tibetan demand are (1) its disinclination to reduce India's precious reserve dollar exchange by granting exchange for purchase of unessential commodity such as gold and (2) its belief that Tibetans do not really desire gold as backing for currency but to smuggle it back into [India?] for sale, a transaction that would result in enormous profit for persons involved.

Nair said one of the reasons used by Tibet in support of their request was that they had committed themselves while in US to purchase gold and that it would be embarrassing for them to renege on this agreement. In reply to Mr. Nair's question, Embassy official stated that he doubted extremely that any agreement regarding purchase of gold had been entered into between the Tibetan Mission and the US Government. Embassy would appreciate any information in possession of Department regarding this point and particularly whether Tibet actually reached an agreement with private companies to purchase gold.

GoI, despite its disinclination to grant dollar exchange for purchase of gold, is desirous of doing everything possible to satisfy Mission. It is granting free entry for goods apparently purchased by members of

¹ Continued from *Foreign Relations*, 1948, vol. VII, pp. 755 ff.

² Not printed.

³ Government of India.

Mission privately while abroad and has also offered them, in Mr. Nair's words, "several hundred thousand dollars" for purchase of essential commodities such as machinery and agricultural implements from abroad. Tibetans, however, show little interest in this offer but continue to press for dollars to buy gold.

HENDERSON

693.0031 Tibet/1-849

Memorandum by Miss Ruth E. Bacon of the Office of Far Eastern Affairs to the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] April 12, 1949.

Reference is made to New Delhi's despatch no. 35 of January 8, 1949⁴ and previous despatches in which New Delhi recommends that the Department review US policy toward Tibet in the light of changing conditions in Asia.

Background

During the visit of the Tibetan Trade Mission to the US in July 1948 the Department sought to show every friendliness to the Tibetan Mission without giving the Chinese Government cause for offense. The Department informed the Chinese Embassy that this Government had no intention of acting in a manner to call into question China's *de jure* sovereignty over Tibet. On January 5, 1949 Ambassador Henderson informed the Tibetan Trade Mission that it was the policy of this Government to recognize the suzerainty of China over Tibet and that for the present relations between Tibet and the US would have to be strengthened by indirect means.

The Embassy at New Delhi has been suggesting for some time that in view of existing conditions in Asia we review our policy toward Tibet. The Embassy now proposes in substance that if for example the Communists succeed in controlling all of China or some equivalent far-reaching development takes place we should be prepared to treat Tibet as independent to all intents and purposes.

Arguments in Favor of the Embassy Proposal

1. If the Communists gain control of China proper, Tibet will be one of the few remaining non-Communist bastions in Continental Asia. Outer Mongolia is already detached. Communist influence is strong in Burma and Communists are infiltrating into Sinkiang and Inner Mongolia. Tibet will accordingly assume both ideological and strategic importance.

⁴ Not printed.

2. If Tibet possesses the stamina to withstand Communist infiltration—and the Embassy in New Delhi seems to feel that it does—it would be to our interest to treat Tibet as independent rather than to continue to regard it as a part of a China which has gone Communist.

3. The Government is relatively stable. The people are conservative and religious by nature and disposed to oppose Communism as in conflict with the tenets of Buddhism. The Dalai Lama's authority extends beyond Tibet over persons who practice the lamaist form of Buddhism in Nepal, Sikkim, Bhutan, Mongolia, etc.

4. The Chinese Government cannot now assert—and there currently appears little likelihood that it ever again will be able to assert—effective *de facto* authority in Tibet.

5. The Tibetans are showing increasing interest in establishing trade and other relations with the outside world. It is to our interest to see that these efforts are oriented to the West and not to the East.

Arguments Against the Embassy Proposal

1. A decision to recognize Tibet involves a reconsideration not merely of our policy toward Tibet but also of our policy toward China. A basic principle of our policy toward China has been respect for China's territorial integrity. This principle has retarded while not entirely preventing the gradual dismemberment of China and it helped China emerge from World War II with the status of a great power. This policy should not be abandoned unless it is clear that a permanent breakup of China is inevitable and that we have a substantial stake in Tibet.

2. Adoption of such a policy would lessen the weight of our objection to current Soviet efforts to detach additional northern areas from China. It would also complicate our position that we are not sufficiently sure of the Mongolian People's Republic's independence to favor the MPR's admission to the UN.⁵

3. Such a policy might lead to intensified efforts on the part of the USSR to take Tibet into the Communist camp. If we carry on toward Tibet much as at present, the Communists might also be content to let the present situation there ride. By recognizing Tibet as independent while we are not in position to give Tibet the necessary practical support, because of its remoteness, we may in fact be pointing the way for Communist absorption of the area.

4. As a practical matter Tibet's importance both ideologically and strategically is very limited. Because of its geographical remoteness, the primitive character of its Government and society and the limited character of its contacts with the outside world Tibet's orientation toward the West cannot be counted upon to endure on an ideological

⁵ United Nations.

basis unless supported by far-reaching practical measures. If we cannot take these practical measures, recognition in itself would not hold Tibet in an alignment with the West and might in fact work against our long-run interests. Similarly, efforts to utilize Tibet strategically as for example as an air base or for the discharge of rockets would encounter not merely formidable difficulties of terrain and weather but also Tibet's objections on religious grounds to the passage of planes over its territory. Unless rare minerals are found in Tibet, the Army does not regard Tibet as of strategic significance.

5. The answer to what measures of a practical nature can be taken appears to lie largely with India which now controls Tibet's access to the West. If India cooperates with the West the importance of Tibet both ideologically and strategically will be considerably less. If India does not cooperate with the West the difficulties in the way of utilizing Tibet as a bastion for the West would be enormously magnified.

Policy of Other States

China asserts that Tibet is part of the territory of China and has no authority to conduct diplomatic negotiations with foreign governments. China has shown strong sensitivity on this point.

Tibet, according to the leader of the Tibetan Trade Mission is completely independent and the Chinese Government has no control whatsoever over the internal or external affairs of the country. However, the Tibetan Trade Mission entered China on Chinese passports and in general avoided raising open conflicts with the Chinese authorities.

India regards Tibet as an autonomous region under the sovereignty of China. India has however been reviewing its policy toward Tibet and our Embassy in Delhi reported in August, 1948⁶ that as a result of this review India might not try to bolster the autonomous status of Tibet as assiduously as the British have done. Tibet has indicated but not pressed a desire to adjust in Tibet's favor the Tibet-Indian border. Tibet has also expressed dissatisfaction with Indian customs policy as it relates to Tibet and to India's control over Tibet's foreign exchange resulting from Tibetan shipments through India.

The UK no longer has an abiding interest in the future of Tibet since British control was withdrawn from India, our Embassy in London reported in August, 1947⁷ on the basis of discussions with a British Foreign Office official.

There are missions or agents of China, Nepal and India in Tibet.

Foreign Exchange Situation

The Tibetan Trade Mission which visited this country in 1948 sought to purchase 50,000 ounces of gold for currency stabilization.

⁶ Airgram No. 434, August 9, 1948, not printed.

⁷ Airgram No. 1841, August 26, 1947, not printed.

The Mission was informed that the US Treasury Department was willing to sell gold to Tibet for this purpose. The Mission then informed the Department that although Tibetan exports had earned ample dollar exchange to pay for this gold India for the the present was withholding this dollar exchange. Accordingly the Mission asked for a temporary loan from the US of \$2,000,000 for gold and machinery.

The Trade Mission maintained that the Tibetan exports which earned the foreign exchange were merely in transit through India from Tibet to foreign markets and that India would not permit Tibet to use this dollar exchange except in such amounts and for such purposes as suited Indian policies. A letter from the leader of the Mission to Secretary Marshall⁸ states "Curiously enough, the Government of India applied these restrictions and controls on the exports and imports of goods from and to Tibet—in spite of the fact that Tibetans use the port of Calcutta only as a centre through which goods are sent and brought to and from other countries of destination and origin, and that these goods are only in transit to and from such countries."

The Indian Government according to an airgram of February 19 [17], 1949 will grant several hundred thousand dollars of exchange for the purchase by Tibet of essential commodities such as machinery and agricultural implements from abroad. India is not disposed, however, to grant the Tibetan request for dollar exchange for the purchase of the gold because (1) India does not desire to reduce its dollar exchange by permitting the purchase of an unessential commodity such as gold and (2) India believes that the Tibetans intend to smuggle the gold back into India for sale at an enormous personal profit.

The full details of the situation with regard to Tibet's foreign exchange are not clear from a brief reading of the files. It may be that Tibet's difficulties stem from a primitive banking and transport system which leads to a relay of the Tibetan foreign exchange into Indian hands.

On the face of the situation, however, Tibet would seem to have a grievance. It is a landlocked state with access to the outside world only through (a) China proper,—now cut off by civil war; (b) the USSR,—a route which we desire to discourage; and (c) India. For India to assume the right to control Tibet's foreign exchange—even with the best of motives—would seem to be a policy which if persisted in would tend to alienate Tibet from the West toward the East. It would also seem to be contrary to the principles of freedom of international trade and intercourse which we are espousing.

Leaving aside the question whether a loan to Tibet would be economically desirable and leaving aside also the political implications

⁸ George C. Marshall, Secretary of State until January 7, 1949.

of such a loan, it is clear that there would be strong objection in this country to the making of any such loan if Tibet actually possesses ample funds which are now locked in India. Exploration of this whole subject with the Government of India would seem to be both necessary and desirable as a preliminary step to any further consideration of measures which might be taken in the matter of Tibet's desire for gold.

Communist Interest in Tibet

There are on two occasions references in the files to possible Communist activities in connection with Tibet. The Embassy has not tended to regard these reports too seriously in the light of Tibetans' known aversion to Communism. In a conversation with Ambassador Henderson on January 5, 1949 the leader of the Tibetan Trade Mission said that the Government of Tibet has recently prohibited the entry into Tibet of persons from Outer Mongolia who in the past had been permitted to come to study Buddhism and to become Buddha monks. Ambassador Henderson said that he gathered from the conversation that the Tibetan Government recognizes the danger to Tibet which will result if the Chinese Communists succeed in taking over China proper.

Chinese Sovereignty or Suzerainty Over Tibet

It is to be noted in the files there are references to China's "sovereignty" or "suzerainty" over Tibet. As is, of course, known the two terms are not synonymous. It is difficult, however, to draw a precise line of demarkation between them. In general "suzerainty" implies less of Chinese authority and more of Tibetan autonomy than "sovereignty". "Suzerainty" would accordingly appear to fit the case quite closely in some respects. "Suzerainty" however carries the connotation of a vassal state and does not fit as well into customary American concepts as into British usage. It is suggested that it might be desirable to avoid a possible controversy over "sovereignty" versus "suzerainty" by referring in future to Chinese *de jure* authority over Tibet or some similar comprehensive term.

Conclusions

A. Under Present Circumstances

1. Without placing too great reliance upon Tibet's ideological or strategic importance, it is believed to be clearly to our advantage under any circumstances to have Tibet as a friend if possible. We should accordingly maintain a friendly attitude toward Tibet in ways short of giving China cause for offense. We should encourage so far as feasible Tibet's orientation toward the West rather than toward the East.

2. For the present we should avoid giving the impression of any alteration in our position toward Chinese authority over Tibet such as for example steps which would clearly indicate that we regard Tibet

as independent, etc. We have recently given renewed assurances to China of our recognition of China's *de jure* sovereignty or suzerainty over Tibet. Any decided change in our policy might give China cause for complaint, might necessitate embarrassing explanations, might stimulate Soviet efforts at infiltration into Tibet and might not in itself be sufficient to hold Tibet to our side. We should however keep our policy as flexible as possible by avoiding references to China's sovereignty or suzerainty unless such references are clearly called for and by informing China of our proposed moves in connection with Tibet, rather than asking China's consent for them. Ambassador Henderson's statement of our policy in his conversation with the head of the Tibetan Trade Mission on January 5, 1949 would seem to cover the situation quite adequately.

3. As Tibet clearly feels that it is being unfairly treated by India in the matter of foreign exchange we should reconsider our present policy of avoiding raising this question with India. We should point out to India the desirability of removing causes of complaint which may serve to alienate Tibet against the West and show an interest in discovering whether some reasonable adjustment of the situation cannot be worked out. We should not give further consideration to the economic necessity or political feasibility of granting a loan to Tibet until the situation with regard to possible release of Tibetan foreign exchange from India has been explored.

4. Our information with regard to Tibet comes for the most part from third parties—China, India, Tibet—and is colored according to the aims and purposes of its source. To secure first-hand information and as an indication of our friendly interest, it would be desirable to send a suitable official or officials to Tibet if this can be done inconspicuously and without giving rise to speculation that we may have designs upon Tibet.

B. For the Future

The nature of developments will affect the policy which we should adopt toward Tibet in the future. If for example the Communists should take over all of China proper and the National Government should disappear we would be faced with the alternatives of (1) treating Tibet as under the authority of the Communist Government—which we should clearly wish to avoid or (2) dealing with Tibet as for all intents and purposes independent. The latter policy would clearly be to our advantage. If however the Communists take over China proper but an *émigré* National Government should continue to exist, we would then have to decide our policy toward Tibet partly in the light of our policy toward the *émigré* Government. The question would arise whether we should place emphasis on Tibet's independence by formally recognizing it and by sponsoring its applica-

tion for membership in the UN or whether we should avoid stressing the matter of independence but should merely maintain direct relations with Tibet without a public change of policy. Decision on this question would involve (1) our estimate whether open recognition of independence might stimulate Soviet activities to take over Tibet; (2) whether we have the practical means to afford sufficient assistance to Tibet to make probable its continuance in a western alignment; and (3) our estimate whether China's dismemberment is likely to be on a fairly permanent basis.

893.00 Tibet/4-1249

The Ambassador in India (Henderson) to the Secretary of State

No. 302

NEW DELHI, April 12, 1949.

[Received May 19.]

Subject: American Policy Towards Tibet

SIR: I have the honor to refer to the Embassy's despatch no. 250, dated March 23, 1949^o on the subject "Report on Buddhist Areas on India's Northern Frontier with Particular Reference to Tibet" and to submit for the consideration of the Department, and particularly of the Office of Far Eastern Affairs and the Office of Near Eastern and African Affairs, some tentative observations regarding American policies toward Tibet.

The American Economic Stake in Tibet

Present American economic interests in Tibet are of little importance. Some Tibetan products—musk, furs, skins, yak tails and particularly wool—find their way to the United States through India. Wool is by far the most important of these products and, while exact information regarding the quantity of Tibetan wool which is shipped from Calcutta to the United States is not available, the leader of the Tibetan Trade Mission estimated that annual value of exports of Tibetan wool to the United States is approximately \$2,000,000. Limited quantities of goods manufactured in the United States find their way into Tibet, also by way of India. The quantities of these products, however, are almost infinitesimal.

There is no information available regarding mineral resources of Tibet. Even if it should be found that there are mineral resources of importance in Tibet, it would be almost impossible to exploit them in view of the opposition which their exploitation would arouse among the conservative superstition-ridden Tibetan people.

^o Not printed.

Relationship Between American Policy Toward Tibet and the Establishment of a Communist-Dominated Government in China

According to the latest information available to the Embassy, the United States policy toward Tibet is defined as the recognition by the United States of Chinese sovereignty over the country. Undoubtedly, one of the reasons for the adoption of this policy was our desire to strengthen the Chinese Government, in view of the strong ties of friendship between the United States and China, and forestall in so far as it would be possible for us to do so the fragmentation of greater China which would result if Sinkiang and Tibet were to be recognized or treated as independent political units.

I am not certain that the foregoing policy is best adapted to further American interests if the Communists are successful in their efforts to obtain control of the Chinese Government. It might well be asked if the interests of the United States will be substantially affected if the present Government of Tibet is superseded by a Communist government, or if a Communist-dominated China is able to establish control over Tibet. Proponents of the argument that what happens in Tibet is of little importance to the United States could point to the fact that our economic interests in the country are negligible, that it has a population of only about five million, that nothing is known of its resources, and that the country would possibly, or even probably, not lend itself to development as a base for military operations against the U.S.S.R.

Although the foregoing arguments possess a certain amount of validity, I feel that the extension of Communist control over Tibet would adversely affect the over-all position of the United States versus world Communism. In the first place, a Communist-controlled Tibet would constitute a serious threat to the non-Communist areas of Southern Asia and particularly to India. Under present treaty arrangements between India and Tibet, Tibetans are permitted to enter India with no travel documents whatsoever. Consequently, if a Communist Government is established in Tibet, the country will provide a base of great value for Communist agents to infiltrate into India. Moreover, the frontier between India and Tibet is long and ill-defined and it would be impossible for the Government of India, even if it had the best intentions in the world, to prevent the entry of Communist agents from Tibet into India. Finally, if the Communists are able to secure control of the Dalai Lama, their chances of consolidating their hold over the peoples of Central Asia will be greatly strengthened in view of the reverence paid to the Dalai Lama by many of the Central Asian Buddhists, not only in Tibet but also in other areas such as Mongolia, Sinkiang and northwest China.

In the light of the foregoing conclusions it is suggested that the Department give consideration to the advisability of establishing some sort of contact with the Government of Tibet. It might be desirable to establish this contact in the near future in view of the rapidity with which political conditions in China and other parts of Asia are evolving. Moreover, if we make no effort to demonstrate a friendly interest in Tibet until a Communist dominated regime consolidates its hold on China, the impression will be created among the Tibetans that we were moved only by a desire to contain Communism and not to develop cordial relations with the Tibetan people.

Respectfully yours,

For the Ambassador:
HOWARD DONOVAN
Counselor of Embassy

893.0031 Tibet/5-349 : Telegram

The Secretary of State to the Ambassador in India (Henderson)

WASHINGTON, May 3, 1949—7 p. m.

328. NY FR ¹⁰ Bank has recd request Leader, Tibet Trade Mission to sell some \$US 400,000 of gold for air shipment vaults Hong Kong [and] Shanghai Banking Corp., 31 Dalhousie Square, Calcutta, West Bengal. When Trade Mission in US this Govt inclined to honor such request to Tibetan *de facto* Govt but had misgivings re end use of gold, that is in event premium sales Tibet or elsewhere involved. Pls ascertain discreetly possible end uses and attitude of GoI auths such transaction if approved here. Leader TTM states some dols to be released by GoI.

ACHESON

893.00 Tibet/5-2149

The Ambassador in India (Henderson) to the Secretary of State

No. 420

NEW DELHI, May 21, 1949.

[Received May 31.]

Subject: Transmission of Memoranda of Conversation with Indian External Affairs Officials Regarding Tibet

SIR: I have the honor to refer to the Embassy's despatch no. 250 of March 23, 1949 ¹¹ entitled "Report on Buddhist Areas on India's Northern Frontier with Particular Reference to Tibet" and to enclose memoranda ¹¹ describing conversations between officials in the Min-

¹⁰ Federal Reserve.

¹¹ Not printed.

istry of External Affairs dealing with Tibetan affairs and an officer of the Embassy.

It will be observed from these memoranda that one of the officials of the Ministry of External Affairs stated that when the United Kingdom informed the Government of India that it desired to send a mission to Lhasa this summer, the latter Government indicated that it would be advisable to postpone the despatch of such a mission until next year. This statement has been confirmed by an official in the United Kingdom High Commissioner's Office, who informed an Embassy officer that the Indians had asked the United Kingdom Government not to send a mission to Lhasa this year. He went on to say that the real basis for the Indian objections stemmed from the fact that the Indian Political Officer in Sikkim was planning a trip to Lhasa this summer and that the presence of a British mission in Lhasa at the same time would detract from the importance of the Political Officer's visit.

The most surprising statement made by either of the two officials was that made by the Maharajkumar of Tehri-Garhwal, an Under Secretary in the Ministry, regarding the determination of the Indian Government to resist, by force if necessary, any attempt by the Chinese to re-establish control over Tibet. The Maharajkumar stated categorically that, if the Chinese tried to invade Tibet, they would find themselves opposed by Indian military forces. He also said that a motor road was being constructed from the road-head in Sikkim to Lhasa and that Indian Army officers were training the Tibetan Army.

While the Embassy has no reason to believe that the Maharajkumar's statement that India would oppose Chinese aggression against Tibet by force was not made in good faith, it is not convinced that policy outlined by him represents the considered views of the Prime Minister¹³ or other members of the Indian Cabinet. It is true that the policy of British Government of India was to strive to prevent any major power from controlling Tibet and that, in the time which has elapsed since Indian independence, the Indian Government's policy towards Tibet has tended to fall into the grooves already marked out by the British. Nevertheless, the obstacle with which the Indian Government would be confronted in obtaining support for such far-flung military operations from a people imbued with the Gandhian principles of pacifism, the logistic difficulties in the way of such operations, the incalculable consequences of an Indian military challenge to Communist forces in Southeast Asia, and the failure of Indian Government leaders to acquaint the Indian people with the threat of world Communism all incline the Embassy not to accept the statements of the External Affairs official as a definitive exposition of Indian policy

¹³ Pandit Jawaharlal Nehru.

towards Tibet, at least until such time as confirmation from other sources can be obtained.

Respectfully yours,

For the Ambassador:
HOWARD DONOVAN
Counselor of Embassy

693.0031 Tibet/5-3149: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, May 31, 1949—11 a. m.

[Received May 31—10 a. m.]

614. GoI states it has no objection sale gold to Tibet Trade Mission as \$250,000 in dollars exchange has been released by GoI specifically for purchase gold. (Deptel 328, May 3) GoI also informed Embassy that so far as it knew officially on basis information received, TTM gold will be used as backing Tibetan currency. As reported in Embassy's airgram 168, February 17, however, GoI considers it possible some of gold may be smuggled India for premium sales. Embassy would appreciate being informed action taken Tibetan request.

Sent Department, pouched Calcutta.

HENDERSON

893.00 Tibet/6-449: Airgram

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

Moscow, June 4, 1949.

[Received June 10—12: 13 p. m.]

A-577. Reference is made to New Delhi's despatch no. 302 of April 12, 1949, entitled "American Policy Towards Tibet", and to its despatch no. 420 of May 21, 1949, entitled "Transmission of Memoranda of Conversation with Indian External Affairs Officials Regarding Tibet".

This Embassy fully supports the suggestion in New Delhi's despatch no. 302 that the Department give consideration to the advisability of establishing some sort of contact with the Government of Tibet. Although as New Delhi points out, Tibet is of little importance to the United States either economically or strategically, control of that vast Central Asian area by elements subject to the plans and policies of the Kremlin would have an adverse effect on the American position in Asia generally.

In any review of United States policy towards Tibet due consideration might also be given to the advantages which would accrue from initiating an informal exchange of views on the problem with appropriate officials of the Government of India. Indian concern over the

possible impact of recent Chinese developments on the internal situation in Tibet would appear to offer an excellent opportunity for us to show by both word and action a sympathetic understanding of the Indian attitude vis-à-vis Tibet and, by so doing, to help forge a common front against further Communist encroachments in Asia.

KOHLER

893.00 Tibet/7-249 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, July 2, 1949—9 a. m.

[Received 11:10 a. m.]

741. For Butterworth¹⁴ and McGhee.¹⁵

1. We again venture suggest in light present developments China and South Asia reconsideration our policy re Tibet (see Embdesp 302, April 12 and Moscow's A-577, June 4).

2. Our recommendation is that: (a) We endeavor arrange send mission to Tibet to arrive Lhasa not later than September 1; (b) such mission be headed by prominent American experienced foreign relations and with him be experienced member Foreign Service who if it could be worked out with Tibetan Government could be left with small staff in Lhasa for indefinite period; (c) head of mission should bring certain gifts but try effect understanding gifts to be dispensed with in future relationships.

3. Mission should be on relatively moderate scale and given minimum publicity.

4. Advisable arrange for communications with outside world for mission itself as well for personnel left behind. In view slowness and difficulty communications with Tibet, no time should be lost if visit to be made this year. Weather conditions would be extremely trying after October 15.

5. Our recommendations are based on following considerations: (a) Developments in Tibet following victory Communism China proper may have considerable significance for large sections non-Chinese Asia; it would seem advantageous therefore have our own observers in Lhasa; (b) we should not in our opinion continue ignore country and people which likely play more important role Asian affairs future; (c) our observers if of proper type might succeed creating friendly feelings among Tibetans for us which at some time might be extremely useful; (d) if we are [to] make an effort maintain informal relations with Tibet, now would seem be appropriate time when it is obviously useless attempt approach Tibetan Government

¹⁴ W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

¹⁵ George C. McGhee, Assistant Secretary of State for Near East and African Affairs.

through nonfunctioning Chinese Nationalist Government and when we have no relations any other government. It seems [to] us that it would be much more difficult make approach directly and informally after we have established relations with government in effective control China proper.

6. We realize other factors may make approach to Tibet this time inadvisable; furthermore Tibet may not desire visit. Nevertheless, we submit our recommendations since we believe that now is time try.

7. We believe any approach should be discussed in advance informally and confidentially with GoI which because its monopoly of speedy communications and its influence on Tibet's present foreign relations is in position so to delay negotiations that no visit could be made this year. We have no idea what India's attitude would be. We would be more likely get assistance from GoI if in discussing matter we could tell who chief proposed mission would be.

Pouched Moscow, Calcutta.

HENDERSON

693.0031 Tibet/7-249 : Airgram

The Secretary of State to the Ambassador in India (Henderson)

WASHINGTON, July 2, 1949.

A-224. In addition to inquiring regarding the purchase of gold for U.S. dollars in the United States of which the Embassy has already been informed, the Tibetan Trade Mission while in the United States also inquired about loans for use in purchasing machinery in the United States and in stabilizing the Tibetan currency. The Mission was informed that it was at liberty to approach the Export-Import Bank of Washington to discuss the possibility of obtaining a loan for financing the export machinery to Tibet and was given general information regarding the operations of the Bank. The Mission was further informed that there are no funds available at the present time to permit a loan to the Tibetan authorities for the purpose of currency stabilization.

During discussion of Government of India restrictions on the use of Tibetan dollar funds, the Mission was informed that it was not believed appropriate under the circumstances for the U.S. Government to raise with the Government of India the question of trade and exchange controls exercised over transactions between Tibet and other countries. The Department is, however, prepared to reconsider its position concerning a possible approach to the Indian Government on the matter of dollar exchange. The Tibetan Trade Mission while in Washington stated that the dollar exchange in question accrued on goods in transit from Tibet to foreign destinations but that its use was withheld by India except for purposes approved by India. The Depart-

ment realizes that this situation may result from lack of adequate banking and trading mechanisms or other sound reasons, and appreciates India's special problems in connection with the gold in question. Furthermore, the Government of India has subsequently released some Tibetan dollar exchange for the purchase of gold in the United States. However, for India to assume, even with the best of motives, control over Tibetan foreign exchange on what is apparently considered by Tibet an arbitrary basis, might tend, if persisted in, to alienate Tibet from its favorable attitude toward the West and would seem to be contrary to the principles of freedom of international trade and intercourse which the United States supports. The Department has supplied this outline of its present views for your background information and for use in your discretion.

For the Embassy's information, the Department does not consider that any of the courtesies extended to the Tibetan Trade Mission while in the United States have the effect of altering the *status quo* among China, Tibet, and the United States. In particular the willingness of the U.S. to sell gold to the Tibetan authorities does not constitute recognition of the Tibetan administration as a sovereign government.

The Department is undertaking a review of U.S. Policy toward Tibet and expects to inform you of the conclusions reached.

ACHESON

711.93 Tibet/7-849 : Telegram

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

NANKING, July 8, 1949—6 p. m.

[Received 6:26 p. m.]

1459. We like suggestion Embassy, New Delhi, to send small mission this summer to Lhasa (Department's intel July 5, 1 a. m.¹⁶). Authority Canton Government over Tibet non-existent and we agree any move with implications recognition autonomous status Tibet should be made before relations established with Chinese Communist government.

Sent Department 1459, repeated New Delhi 6.

STUART

893.00 Tibet/7-249 : Telegram

The Secretary of State to the Ambassador in India (Henderson)

WASHINGTON, July 28, 1949—6 p. m.

530. In process reconsideration US long term policy re Tibet Dept appreciates ur contributions Embdes 302 Apr 12 and Embtel 741

¹⁶ Not printed.

July 2. Type Mission you suggest 741 appears polit[ical]ly undesirable view overall considerations.

Dept currently considering and wld appreciate ur comment possibilities covert mission along one of the fol lines :

a) Minimum expedition undertaken immed by Jefferson Jones,¹⁷ perhaps accompanied by similar rep Brit High Commissioner's Office New Delhi ostensibly personally arranged unofficial and during Fon-Serv leave. Actually time not to be counted against Jones' leave and expedition financed by US in whole or in partnership with Brit. This expedition to remain Lhasa perhaps 2 weeks having as its objective survey current polit situation and recommendations re feasibility eventual establishment Consular representation after Chinese suzerainty question no longer obstacle.

b) Expedition headed by experienced explorer-scholar, such as Schuyler Cammann, University of Pennsylvania, with established reputation and *prima facie* justification trip. This expedition also to be accompanied by Jones ostensibly on leave who wld return earliest with prelim report. Cammann to remain major portion year under scientific cover but observing polit trends.

Dept concerned re practicability either alternative this year due climate conditions intervening passes. Pls comment this point as well as ur estimate cost of expedition and suggestions extent GoI shld be taken into confidence. No candidates second proposal being approached prior receipt ur recommendations.

ACHESON

893.00 Tibet/7-3049

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, July 30, 1949.

[Received July 31—1:17 a. m.]

862. Delhi press 30th states "authoritative version" now available of recent events Tibet. Authorities there had asked Chinese mission Lhasa depart because of suspicion mission engaged Communist activity. Simultaneously Indian representative was asked arrange permission Chinese return home via Sikkim and Calcutta.

Report continues India hesitated because delicacy of even indirect assistance in "virtual expulsion of diplomatic representatives of friendly government" but required facilities eventually granted. Indicates representatives expected reach Indian border in fortnight following which India will be only country officially represented Tibet.

Report states official quarters refuse comment on Tibetan action but speculates Tibet seizing opportunity "free herself of Chinese

¹⁷ Second Secretary of Embassy.

suzerainty which though nominal is known to have been regarded as irksome”.

HENDERSON

893.00 Tibet/8-549 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, August 5, 1949—8 a. m.

[Received 1:20 p. m.]

888. 1. We do not believe suggestion (a) would work out particularly this year since two members British High Commission who desired visit Tibet were discouraged by GoI which at present has practical monopoly on Tibet's foreign relations. There might be complications if attempt were made to replace this project by British-American team. Furthermore we doubt Tibet would be pleased at idea first American civilian official entering as member British-American team (Deptel 530, July 28). Nevertheless if Department has reasons for joint American-British visit we shall put out feelers but believe next spring preferable.

2. In our opinion too late in year to organize expedition envisaged in (b). Expedition should enter not later than early September since trails after middle October dangerous and frequently impassable. Impossible get permits and set up properly organized expedition within 3 weeks. Suggestion (b) might be practicable in early May. If (b) decided upon for next spring, suggest we begin making plans without delay and that approach Tibetan authorities be made before end of year since mail goes through up to December. Believe Jones ideal officer accompany Cammonn. Tibet Government might refuse Cammonn visa unless in request for permit it is stressed he will be accompanied by American official such as Jones. Visits foreign non-officials in general discouraged. Permit Lowell Thomas outstanding exception made on basis friendly relations between this Mission and various Tibetan officials.

3. We should take GoI in our confidence at early stage regardless whether we decide on (a) or (b).

HENDERSON

893.00/11-2149 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 21, 1949—10 a. m.

[Received 6:16 p. m.]

1437. A Tibetan representative, Surkhang Depon, who visited US '48 with Tibetan Trade Mission, called at Embassy 19th to deliver

letter addressed Secretary by Foreign Bureau at Lhasa. Letter dated November 4, and, according Depon, brought by special fast courier. Substance as follows:

1. Chinese Communist troops have invaded Lanchow, Chinghai and Sinkiang, all on Tibetan border, and therefore Tibetan Government has written Mao Tse-tung¹⁸ asking him respect Tibet's territorial integrity.

2. In event Mao ignores Tibetan letter and takes aggressive attitude sending his troops toward Tibet, "then Government of Tibet will be obliged to defend her own country by all possible means. Therefore the Government of Tibet would earnestly desire to request every possible help from your Government".

3. Tibetan Government would be grateful if Secretary would consider extensive aid in regards civil and military requirements and send a favorable reply at earliest possible opportunity. (Aid required is not further defined.)

Copy of letter dated November 2 addressed to Mao Tse-tung, "Chairman of the Chinese Communist Government, Peiping" was enclosed. This letter states Tibet independent from earliest times, that its political administration had never been taken over by foreign country and that Tibet defended her territories from foreign invasion. As Chinghai and Sinkiang are situated on Tibetan border, "we would like to have an assurance that no Chinese troops would cross the Tibetan frontier from the Sino-Tibetan border, or any such military action. Therefore please issue strict orders to those civil and military officers stationed on the Sino-Tibetan border in accordance with the above request, and kindly have an early reply so that we can be assured. As regards those Tibetan territories annexed as part of Chinese territory some years back, the Government of Tibet would desire to open negotiations after the settlement of the Chinese civil war". Texts both letters being pouched.¹⁹

In delivering letter addressed to Secretary, Depon said matter most urgent and he is leaving representative named D. Bhakta at Delhi to receive Secretary's reply. Embassy told Depon must expect delay several weeks before any response from Washington could arrive here.

Depon made no mention of similar letters to other governments but member UK office told us that it has received copy Richardson's monthly report for September to GoI. This report mentioned Tibetan Government had decided appeal to UK, US and GoI for aid against Communists and also to reactivate certain military units.

UK Acting High Commissioner mentioned in informal conversation 16th his office endeavoring assess importance Tibet from standpoint long-term strategy and other considerations. He fears, however, pre-

¹⁸ Chairman of the "Central People's Government of the People's Republic of China" and of the Central Committee of the Chinese Communist Party.

¹⁹ Despatch No. 1002, November 22, and enclosures, not printed.

vailing opinion GoI is that Tibet must already be written off. According another UK officer, Pannikar,²⁰ on return from Nanking, told GoI Tibet was wide open from east and any efforts help Tibet would merely involve India in conflict with Chinese Communists. This officer also stated study was being given to possibility of reminding GoI it is heir of British policy of preserving integrity Tibet and of proposing UK furnish GoI arms and equipment for latter to give to Tibet. He pointed out, however, this would have to be accompanied by UK guarantee of support in case of complications with Chinese Communists and might therefore be of interest to US.

We believe UK office correct in its evaluation GoI attitude. Several weeks ago San Jevi, Director of Intelligence, told me that at inter-departmental meeting held to discuss Tibet it was decided most GoI could do was send moderate supply small arms plus a few officers to instruct Tibetans how to use them. According San Jevi, it was further agreed GoI could not afford become involved in any military adventures in Tibet.

In my next talk with Bajpai²¹ I plan ask him significance Nehru reference to Chinese suzerainty over Tibet (Embtel 1427, November 17²²) in his press conference Delhi November 16.

DONOVAN

893.00/11-2149 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 21, 1948—3 p. m.

[Received November 21—2:32 p. m.]

1441. At press conference Delhi 16th Nehru commented as follows re Tibet: "We have got a representative at Lhasa. . . .²³ In a vague sense we have accepted fact of Chinese suzerainty. How far it goes one does not know." I asked Bajpai today what implications these remarks had re GoI policy toward Tibet. He said he had not discussed Tibet with Prime Minister since his return and that Dayal, Indian political agent in Sikkim, had not yet arrived Delhi where he had been ordered for consultation re Tibet. Bajpai said Prime Minister's remarks were purposely vague as final policy had not as yet been evolved.

²⁰ K. M. Panikkar, Indian Ambassador to China.

²¹ Sir Girja Shankar Bajpai, Secretary General of the Indian Ministry of External Affairs and Commonwealth Relations.

²² Not printed.

²³ Omission indicated in the source text.

He said that speaking purely personally it should be borne in mind that India had always recognized Chinese suzerainty over Tibet but that same time Tibet had always exercised a certain independence in its dealings with GoI. He said if Communist Government China endeavored take over Tibet situation would be very difficult. I remarked that probably India would like to see *status quo* maintained with respect its relations with Tibet, to which he replied that my comment "about summarized situation".

Embassy believes GoI greatly concerned over Tibet and realizes that if Communist Government wishes take over Tibet there is practically nothing GoI can do prevent such action. See Embtel 1437, November 21.

Sent Department 1441; Department pass London.

DONOVAN

893.00 Tibet/11-2249 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 22, 1949—4 p. m.
[Received November 22—12:26 p. m.]

1449. Embtel 1437, November 21. Roberts, Deputy UK High Commissioner, raised question Tibet during course conversation today. I told him Parsons²⁴ was in touch with Selby²⁵ regarding letter submitted by Tibetan delegate for transmission Washington.

I then said it seemed there was very little GoI could do about Tibet insofar as Communist Government taking over. Roberts replied this was probably true but that British Government certainly did not wish encourage tendency on part of GoI "throw up its hands and say nothing could be done and retire to its own frontiers". He then added there was "too much of a tendency in that direction on part of GoI". He said UK High Commissioner had advised GoI that it should endeavor every way possible maintain relations with Tibet on old basis. Roberts then referred complicated relationship between Tibet and Nepal, especially reference special position held by Nepalese in Tibet. If Tibet went Communist, situation Nepal might become embarrassing since its frontier with India was anything but insurmountable and Nepal itself spread over into the United Provinces. Roberts admitted British policy toward issue under changed situation had not been finally formulated.

DONOVAN

²⁴ James G. Parsons, First Secretary of Embassy in India.

²⁵ Ralph Selby, of the United Kingdom High Commission in India.

893.00 Tibet/11-2349 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, November 23, 1949—10 a. m.

[Received 12:29 p. m.]

1451. UK office has received sealed communication from Tibetan Foreign Bureau addressed to Foreign Secretary²⁶ which is presumed to contain letters similar to those reported in Embtel 1437, November 21.

Although member UK office claims no guidance re Tibet yet received from FonOff, he believes following summary of tentative views reached by British here in talks with Stevenson,²⁷ in Delhi last week likely to coincide with thinking in London.

1. While no doubt Tibetans viewing situation from within country and in full knowledge their helplessness are genuinely apprehensive of early incursion of Communists, UK can give greater weight other factors. Stevenson believed Chinese Communists would not for some considerable time wish to face cost and difficulty of mounting expedition into Tibet, where no great material advantage was to be derived. Unless question of face raised by Tibetan assertions of formal independence or by injudicious acts of propaganda of anti-Communist powers, Communists might well prefer leave Tibet alone. British inclined feel danger gradual infiltration Communists and weakening of Tibet from within greater than that of incursion of Communist troops.

2. British point out Tibetans should be helped to realize threat invasion not necessarily so imminent as they seem believe. Tibetans should further be dissuaded from provocative action such as proclaiming independence (as they have in fact already done in recent letter to Mao Tse-tung) and from pressing claims to portions Inner Tibet (to east of boundary near Chamdo²⁸ and Jyekundo²⁹) which have probably already been overrun by Communists. From this viewpoint it regrettable they have expelled Chinese mission Lhasa on pretext they were Communists not only because this somewhat provocative but also because it increased incentive Communists assert Chinese right to maintain mission at Lhasa.

3. At same time efforts should be made bolster courage of Tibetans who never offered effective resistance earlier Chinese expeditions. Their wishes receive additional small arms including mortars might be considered this connection. Old British policy of recognizing Chinese suzerainty but facilitating exercise Tibetan autonomy applicable to present situation and should probably be pushed harder than ever. This would involve dissuading GoI from tendency write Tibet off.

4. If situation did not develop as expected and threat of imminent Chinese incursion developed, there were still various possibilities open

²⁶ Ernest Bevin.²⁷ Sir Ralph Stevenson, British Ambassador to China.²⁸ Changtu, Sikang.²⁹ Yushu, Tsinghai.

to India and other powers which might have effect of deterring Communists. Quiet dispatch of sizeable contingent troops to Sikkim border might for instance give pause to Chinese. Latter would not know intentions GoI and degree of support it had from UK and others. Dangers this course and undesirability misleading Tibetans into expecting effective military aid would, however, require very careful consideration.

5. From longer term standpoint, British feel careful assessment actual importance Tibet is required. Re this, Nepal's relations with Tibet and absence barriers between southern Nepal and India are important factors. (Embtel 1449, November 22).

British claim to have no information as to whether Dayal, Indian political agent Sikkim who is now returning to Delhi from Lhasa, engaged in negotiations as well as fact-finding. They think GoI will defer policy decisions on Tibet until his arrival. In course discussion UK officer remarked on handicap of no longer being able talk to Tibetans directly at Lhasa. British evidently fear GoI will not be effective proponent of traditional policy of British Indian Government there.

Sent Department 1451, Department pass London.

DONOVAN

893.00 Tibet/11-2849

*The British Embassy to the Department of State*³⁰

The Secretary of State³¹ has received a communication from the Tibetan Government Foreign Bureau enclosing a copy of a letter to Mao Tse Tung requesting him to respect Tibetan independence. The message to Mr. Bevin states that if Chinese Communist leader takes aggressive attitude the Government of Tibet will be obliged to defend her own country and requests help from His Majesty's Government. The letter also requests us to consider extensive aid in respect of requirements for civil and military purposes and asks for early favourable reply. Mr. Bevin is sending an interim reply saying that their communication is receiving sympathetic consideration.

We should like to know whether the United States Government has received a similar communication and, if so, what attitude will be taken.

[WASHINGTON,] 28 November 1949.

³⁰ Handed to the Assistant Secretary of State for Far Eastern Affairs (Butterworth) by the Counselor of the British Embassy (Graves) on November 28, 1949.

³¹ For Foreign Affairs, Ernest Bevin.

893.00 Tibet/12-149 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 1, 1949—9 a. m.

[Received 10:39 a. m.]

1484. Embtel 1451, November 23.

1. Embassy informed by official UK office that High Commissioner expects call on Foreign Secretary Menon³² as soon as appointment can be arranged to inform GoI of Tibetan request to UK Government for assistance in case invasion Tibet by Chinese Communists.

2. At same time High Commissioner will also give UK suggestions re policy which GoI might profitably adopt in light possibility of invasion Tibet by Chinese Communists. According UK official, GoI requested UK comments on what policy GoI should follow. In general UK High Commissioner will advise Menon along same lines as tentative British policy described Embtel 1451. British believe GoI should follow pre-independence Indian policy of recognizing Chinese suzerainty but supporting Tibetan autonomy, and particularly that GoI should not take any steps which could be considered open defiance to Chinese Communists such as recognition independence Tibet or sending brigade troops to Lhasa. It also believes, however, GoI should not let it be known India has no intention opposing Chinese Communist invasion. For example, should Chinese cross Tibetan borders, GoI might decide send troops to Indo-Tibetan border if it thought at time such action would deter Communists from continuing to Lhasa.

3. UK official deprecated address [of] Governor General³³ in Shillong November 28 in which latter reportedly said Chinese threatened Tibet and Burma was divided, but that Assamese should not fear because GoI would ensure their defense. UK official thought that if Indian leaders continued taking this line Chinese Communists would feel they had nothing fear from India if they decided invade Tibet.

4. Bevin has sent interim reply to Tibetan request for aid, merely acknowledging receipt and stating request would receive "sympathetic consideration" of UK Government. UK official said that while UK hoped it could stiffen Tibetan resistance to oppose any Communist invasion, it did not wish to give Tibet the idea that UK would send troops to Tibet to prevent entry Communist armies as UK had no troops to spare for such an operation.

Sent Department 1484. Department pass London.

HENDERSON

³² K. P. S. Menon, Foreign Secretary in the Indian Ministry of External Affairs.

³³ Chakravarti Rajagopalachari.

893.00 Tibet/12-149 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 1, 1949—11 a. m.

[Received December 1—10:42 a. m.]

1483. Press reports that in answer question Parliament 28th Deputy Minister External Affairs replied "no representations had been received from Tibet for any sort of assistance, economic or financial".

In conversation with Surkhang Depon (Embtel 1437, November 21), we received impression any request for help from India would be made by Tibetan Government directly to Dayal, Indian political agent Sikkim, who has just visited Lhasa. British here received similar impression in parallel conversation with Surkhang. As Dayal can communicate with GoI by code telegram from Lhasa, Deputy Minister's statement somewhat surprising, in view of various indications Tibetan Government was asking help from India as well as US and UK.

Department pass to London.

HENDERSON

893.00 Tibet/12-249 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 2, 1949—10 a. m.

[Received December 2—6:37 a. m.]

1488. During talk with Bajpai December 1, I referred to problem Tibet. He said GoI has not as yet received expected appeal from Tibet for assistance in resisting possible Chinese Communist aggression. In any event there was little GoI could do. It seemed probable that in no distant future Chinese Communists would take over Tibet. GoI had however suggested to Nepalese Government that it take steps to prevent Communist infiltration from Tibet and warned it that unless it adopted more enlightened and modern regime it might fall as result internal Communist inspired uprisings without any overt closing of frontiers.

HENDERSON

501.AA/12-349 : Telegram

The Tibetan Cabinet Ministers to the Secretary of State

GYANTSE, December 3, 1949.

[Received December 3—1:51 p. m.]

As Tibet being an independent state, we have no dangers from other foreign countries but in view of the spread of Communism and their

successes in China, there is now an imminent danger of Communist aggression towards Tibet.

As all the world knows that Tibet and Communist China cannot have any common sympathy by reasons of religion and principles of life which are just the opposite, therefore in order to defend our country against impending threat of Communist invasion and also to preserve our future independence and freedom, we consider it most essential for Tibet to secure admission of her membership in the United Nations General Assembly.

We are sending a special mission to the United States in this connection but, in the meantime, we shall be most grateful to you and your Government if you would kindly help us and place our humble appeal to the United Nations immediately through your good office so that Tibet could take her place in the United Nations as a member state.

Kindly take immediate action and wire reply.

Kashag (Cabinet Ministers of Tibet, Lhasa)

501.AA/12-649

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 6, 1949.

Participants: Mr. H. A. Graves, Counselor, British Embassy
Mr. Livingston T. Merchant, FE
Mr. Philip D. Sprouse, CA

During a call by Mr. Graves this afternoon on another subject, Mr. Sprouse took the occasion to read to him the telegram, dated December 3, addressed by the Tibetan Cabinet to the Secretary asking the U.S. Government to assist Tibet in obtaining membership in the United Nations. Mr. Sprouse informed Mr. Graves that the Department had not yet reached a decision with respect to its reply to this request and asked whether the British Government had received a similar request and, if so, what its views were. He added that it would be helpful to have an indication of the British views regarding this matter in any event.

Mr. Graves replied that he did not know whether such an appeal had been received by the British Government but that he would inquire of the Foreign Office and inform the Department in due course.³⁴

³⁴ On December 16 such receipt was confirmed by the British Embassy.

501.AA/12-749 : Telegram

*The Secretary of State to the Ambassador in India (Henderson)*³⁵

WASHINGTON, December 7, 1949—4 p. m.

878. Fyi³⁶ tel addressed Secy, by Kashag, recd Dec 3 from Gyantse states Tibet independent, fears Commie aggression. To defend country and preserve independence, Tibet considers admission UN essential. Tel states Tibetans sending mission US and request US support presenting application UN membership.

Full text msg being forwarded by agam.

Dept requests Emb's comments and suggests you discuss with GoI and UK High Commissioner.

ACHESON

893.00 Tibet/12-849 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

[Extracts]

NEW DELHI, December 8, 1949—4 p. m.

[Received 4:10 p. m.]

1523. 1. Embtel 1484, December 1 reported UK High Commissioner would call on Foreign Secretary Menon shortly to tell GoI of Tibetan request for aid from UK. UK officer told Embassy 6th this information had been given Bajpai several days ago together with UK suggestions re future GoI policy as outlined reftel.

4. UK High Commissioner has not yet received further reply from London in response Tibetan request for aid nor has it received instructions re next step in discussing Tibet with GoI. Meanwhile, however, UK High Commissioner fears prevailing viewpoint in GoI will be that Tibet must be written off and it is also fearful that GoI may even take defeatist line in regard to Nepal. Indication that GoI might seek limit Nepalese imports of arms through India (Embdesp 1027, December 1³⁷) seemed a bad sign.

5. UK officer referred to long-standing plan to send small UK mission visit Lhasa and said it now seemed probable this mission would not be sent spring because it might draw too much attention to Tibet and cause Chinese Communists attempt to assert sovereignty over Tibet sooner than they would otherwise do. His emphasis on avoiding "rocking boat" may have been designed to discourage US from sending

³⁵ Repeated to the Ambassador in the United Kingdom as No. 4371.

³⁶ For your information.

³⁷ Not printed.

representatives to Lhasa next summer although neither in this or any other conversation have we mentioned that this possibility is under consideration.

6. Embassy becoming increasingly doubtful re advisability sending proposed US mission to Tibet and suggests Department defer decision on this pending receipt more considered views which will be submitted shortly.

Sent Department 1523; Department pass London.

HENDERSON

501.BB Palestine (E)/12-949: Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 9, 1949—6 p. m.
[Received December 9—5:52 p. m.]

4903. Reference Deptel 4371, December 7.⁸⁸ Apparently identical telegram received by Foreign Office same date.

Foreign Office showed Embassy official text telegram of December 8 to New Delhi which expresses opinion USSR would veto Tibetan application UN; suggests that impracticability Tibetan proposal be explained to Kashag, preferably through Indian resident Lhasa; stresses desirability close cooperation with India; and requests that if possible special mission be held up in India and received jointly by UKHC⁸⁹ and Indian Government. If Indian Government agrees, then interim reply will be sent discouraging Tibetan proposal and suggesting special mission be held up pending receipt considered reply. Similar but briefer message sent same date Karachi for information Pakistan Government and to obtain its views.

HOLMES

893.00/11-2149: Telegram

The Secretary of State to the Ambassador in India (Henderson)

WASHINGTON, December 9, 1949—8 p. m.

889. Urtel 1437, Nov 21. Pls inform Tibetan rep that while Dept is not in position at present give definite ans, their ltr to Secy will be given careful consideration. You may add in ur discretion we have noted simultaneous approach to Brit who, with India, traditionally and geographically stand in closer relationship to them than does US.

⁸⁸ See footnote 35 to telegram No. 878, December 7, 4 p. m., to the Ambassador in India, p. 1089.

⁸⁹ United Kingdom High Commission.

Dept suggests you may find opportunity use Commie threat Tibet to emphasize GoI dangers to India itself arising from Commie China and unrealism semi-detached attitude India respecting developments in China.

Having in mind para 6 ur 1523 Dept has refrained mentioning possible visits Lhasa in replying Tibetans.

ACHESON

893.00 Tibet/12-1249 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, December 12, 1949—4 p. m.

[Received December 12—3 : 59 p. m.]

4921. Reference Embtel 4903, December 9. Foreign Office position paper re Tibet categorically states that while British still interested in Tibet maintaining its autonomy, Tibetan problem is almost exclusively of concern to India. Britain is prepared to support any action India may take to assist Tibet in maintaining its autonomy, but would wish to discourage direct military intervention by India.

When asked whether Chinese Communist threat to Tibetan autonomy would cause a revision in the British attitude, Scott⁴⁰ said he believed any British military assistance would be limited to supply of small quantity firearms to India which would enable that country to supply equivalent amount to Tibet. Any training of Tibetan troops would necessarily be undertaken by India.

HOLMES

501.AA/12-1449 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 14, 1949—10 p. m.

[Received December 15—11 : 06 a. m.]

1555. 1. Tibetan approach re UN admission and dispatch mission US (Deptel 878, December 7) discussed with Foreign Secretary Menon and Roberts, UK.

2. Menon said admission Tibet hopeless, UN debate would unduly agitate Tibetan question and might provoke earlier action by Chinese Communists.

3. a. Roberts expressed similar view. Draft UK reply to similar approach from Kashag avoids outright rejection Tibetan appeal and

⁴⁰ E. J. F. Scott of the Far Eastern Department, British Foreign Office.

suggests in view serious difficulties presently in way on UN admission that dispatch of proposed mission be suspended.

b. Roberts gave Menon UK draft and sounded him out as to GoI willingness deliver it through GoI representative Lhasa together with oral explanation to Tibetans re probable reaction Chinese Communists. If Tibetans still insisted on sending mission, British suggested GoI representative might propose mission come as far as Delhi and talk with GoI and UK representatives here.

4. Menon's reaction to Roberts' approach was negative but matter in abeyance pending discussion this week end in which Nehru, Panikkar and Menon will participate to settle GoI policy re Tibet.

5. In absence Bajpai, British fear negative viewpoint set forth paragraph 2 Embtel 1523, December 8, will prevail.

6. I believe US reply should take line similar UK draft. Visit Tibetan mission US would be even more undesirable than to UK. Our reply should, however, not be sent in clear telegram to Gyantse and I suggest it be given orally to Tibetan representative here to whom we will within next day or so give oral response (Deptel 889, December 9) to Tibetan request for aid. (We do not, however, plan include reference to closer historical relationship UK and India to Tibet.)

Sent Department 1555, Department pass London.

HENDERSON

893.00 Tibet/12-1549: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 15, 1949—noon.

[Received December 15—10:27 a. m.]

1558. Because of following considerations, we are becoming increasingly doubtful that it would be advisable for US to send official mission to Tibet next spring (paragraph 6, Embtel 1523, December 8):

1. In summer 1949 visit would have appeared as gesture of interest in Tibet. Since then, events have moved rapidly and situation is much altered. Official visit in spring might appear to USSR and GoI as first move towards recognition Tibetan independence or as evidence desire obtain foothold Tibet. In any event, it might cause Communists expedite execution their program for conquest Tibet.

2. In spite any declarations we might make, official visit might mislead Tibetans into believing we prepared aid them resist incursion Chinese Communist troops. We doubt US, UK or GoI would attempt meet force with force and there seems little doubt conquest Tibet is within Chinese Communist capabilities if they wish make effort.

It would be unfair for US take any action which might encourage them to resist because of mistaken idea of help from US.

3. In view GoI's probable early recognition Chinese Communist Government and their probable adoption negative policy toward Tibet as described paragraph 2 of reference telegram, GoI would probably not view sympathetically despatch US mission to Lhasa and would possibly withhold its cooperation. We should, of course, weigh carefully adverse effects of sending mission on our relations here against results which we might obtain in Lhasa. Furthermore, we have to recall that, in last analysis, we can communicate with Tibet now only via India, and similarly that Tibet can only communicate with non-Communist world via India.

4. Despatch US mission to Tibet would present Communists as well as other elements in South Asia critical our policy with propaganda opportunity which they would exploit fully.

Consequently Embassy feels that, unless we contemplate adopt stiffer policy than in past re Chinese Communists, we should not make any definite plans just now for despatch of mission to Tibet despite opportunity which it would give of making contacts with higher Tibetan officials and gaining first hand information regarding country about which we know little. Embassy will attempt follow closely evolution GoI and UK policy towards Tibet and will make recommendations to Department at later date if situation should be so altered as to make it advantageous from overall point of view for despatch of some sort of mission to Tibet. We shall take into consideration at that time possible advisability either of sending a covert mission or perhaps attempting obtain permission for non-official make trip with idea his obtaining information of value to US Government.

Department's reaction to foregoing would be much appreciated.

Sent Department 1558; Department pass London, Moscow.

HENDERSON

893.00 Tibet/12-1649: Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 16, 1949—10 p. m.

[Received December 17—7: 12 a. m.]

1564. Following information re Tibet obtained from members British High Commission here (see also Embtel 1555, December 14). They request that information originating with Richardson and Dayal not be discussed with Indian representatives.

1. Richardson, GoI agent Lhasa, believes Chinese Communists likely move into Tibet next summer but British regard this view with considerable reserve. His view probably reflection of prevailing opinion.

Lhasa where threatening broadcasts Peiping radio had created so much alarm. Richardson discounts difficulty of travel from Jyekundo to Lhasa and estimates travel time no more than 2.5 months. Also asserts infiltration Communist agents into Bhutan, Nepal and India is relatively simple. His view is force of 20,000 should be sufficient overcome any likely Tibetan resistance. His last information before leaving Lhasa contradicted earlier reports fall of Jyekundo which he now believes has not yet been taken over.

Despite Richardson's views re timing Communist invasion, British here apparently feel difficulty of terrain, problem of adjustment to extreme high altitudes and constant winds, difficulty of feeding troops, lack of material or accessibility resources to exploit, preoccupation Communists with internal problems all combine render dispatch of Chinese military expedition unlikely in near future and to make alternative infiltration and gradual conquest from within more attractive.

2. Dayal, Indian political agent Sikkim, whose arrival here from Lhasa delayed until today, had long talks with Tibetan Government during which he tried in vain dissuade them from writing Mao Tse-tung (Embtel 1437, November 21) to assert Tibet's independence so provocatively and from renewing claim to inner Tibetan areas. Tibetans asked Dayal for extensive GoI help including aid in building army from reported 13,000 to 100,000. Richardson believes it possible to raise army of 50,000 but help would obviously be needed in equipping it.

3. Dayal was particularly interested in protection Indian trading posts Gyantse and Yatung.

4. Right of GoI maintain resident mission Lhasa was never clearly recognized by China who had only agreed permit visiting mission from time to time. UK believes, however, GoI should maintain resident mission and if challenged by Chinese Communists deal with situation in light then situation.

5. Relationship between Tibet and Nepal continues nominally at least to be governed by Treaty of 1856⁴¹ which was concluded without Chinese participation. This treaty contains provision to effect that Lhasa is holy place of worship for which reason Nepal will grant all assistance in its power against any foreign invaders. This provision has apparently never been invoked successfully but Tibetans would be very likely attempt to do so if Chinese Communists march in.

6. Roberts, Deputy High Commissioner, confirmed UK which has also been considering sending official mission Lhasa next spring un-

⁴¹ Signed March 26, 1856, C. U. Aitchison, comp., *A Collection of Treaties, Engagements and Sanads Relating to India and Neighbouring Countries* (Calcutta, Government of India Central Publication Branch, 1929), vol. xiv, footnote, pp. 41-42.

likely to do so for reasons similar those given in Embtel 1558, December 15. However, no final decision has been reached. Should British go ahead they can leak their correspondence with Himalayan Committee London which will show UK long considering dispatch of mission, thereby demonstrating it was not being sent merely because of development of Chinese Communist threat.

Chinese Ambassador tells me in extreme confidence he is convinced from sources in Lhasa that Dayal has been attempting negotiate treaty defining borders between India-Bhutan and Tibet. He believes such treaty if concluded would give India or Bhutan large slices territory adjacent to Bhutan and Kashmir some of which have been illegally occupied by detachments Indian Army for last 5 years. Although I have indirectly questioned both Indians and British, I have not been able find any confirmation. Ambassador maintains no treaty at present defining Tibet's southern and western frontiers with India and Bhutan although for many years maps prepared in India and China show practically identical boundary lines.

Sent Department; Department pass London.

HENDERSON

893.00 Tibet/12-2149

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] December 21, 1949.

During the course of a conversation with Mr. Graves⁴² today on another subject I gave him a brief summary (copy attached)⁴³ of the statement the Department had authorized Ambassador Henderson to make to the Tibetan representative at New Delhi in reply to the Tibetan appeal for material assistance. I explained that I would also give him, in accordance with his request, the substance of the Department's reply to the Tibetan appeal for assistance in obtaining membership in the UN when that reply was despatched.⁴⁴

Mr. Graves then launched into a description of the British view of the Tibetan situation, pointing out that the British Government was of the opinion that nothing should be done to discourage the Tibetan authorities and that an effort should be made to give them moral encouragement even though it was not possible to extend material aid. He further stated that the British Government felt that the Government of India should take the lead in this problem and that the UK High Commissioner at New Delhi was making efforts along that line.

⁴² Hubert A. Graves, Counselor of the British Embassy.

⁴³ Not printed.

⁴⁴ This was done on December 28.

He said that the British Government would appreciate whatever action the U.S. Government might be able to take along similar lines.

I informed him that Ambassador Henderson had discussed the problem both with the Indian authorities and with the UK High Commissioner and that I felt certain that his efforts were being made toward the desired end. I pointed out that it was also the opinion of the Department that we should not do anything which would discourage the Tibetans and that the Department's reply which I had given him was framed with that idea in mind. In reply to my query, Mr. Graves said that he did not think that the British Government was prepared to give military aid to the Tibetans or to replace any military materiel which the Government of India might be persuaded to make available to the Tibetans but that the British Government was endeavoring to encourage the Indian authorities to give small arms and ammunition to the Tibetans.

During the conversation Mr. Graves showed me a Hansard report of December 14, 1949, in which was published a letter from Mr. Eden ⁴⁵ to Dr. T. V. Soong ⁴⁶ under date of August 5, 1943 and an accompanying memorandum setting forth the British position with respect to Tibet. Mr. Graves stated that it was his view that this still represented the British position in regard to Tibet.

(Subsequent to his return to the British Embassy Mr. Graves sent me a copy of this letter and the memorandum, a copy of which is attached.⁴⁷)

501.AA/12-1449: Telegram

The Secretary of State to the Ambassador in India (Henderson)

WASHINGTON, December 21, 1949—1 p. m.

919. Dept concurs views para 6 ur 1555 Dec 14. Accordingly desires you convey Tibetan representative fol oral reply Tibetan msg from Gyantse re UN membership (Deptel 878 Dec 7) :

Kashag tel to Sec given sympathetic consideration. Dept convinced Tibetan effort obtain UN membership this time wld be unsuccessful in view certain opposition USSR and Chinese dels, both of whom have veto power in SC.⁴⁸ Moreover, Tibetan plan despatch special mission obtain UN membership may at this time serve to precipitate Chinese Communist action to gain control Tibet.

Dept suggests that, if you consider desirable, you point out in-

⁴⁵ Anthony Eden, in 1943 British Secretary of State for Foreign Affairs.

⁴⁶ In 1943 Chinese Minister for Foreign Affairs.

⁴⁷ Latter not printed.

⁴⁸ Security Council.

formally and on personal basis that Tibet now appears enjoy *de facto* freedom Chinese control and that any obvious move this time complete separation from China in form as well as substance wld probably hasten Chinese Commie efforts thereby jeopardizing present status.

In ur discretion you may discuss foregoing informally with UK, HC and GoI.

ACHESON

893.00 Tibet/12-3049 : Telegram

The Ambassador in India (Henderson) to the Secretary of State

NEW DELHI, December 30, 1949—1 p. m.

[Received 1:56 p. m.]

1619. Embtel 1523, December 8. In conversation this morning with Embassy officer, Jha⁴⁹ of Ministry External Affairs said that following, although not yet approved by Nehru, represented thinking of Ministry re Indian policy towards Tibet.

(1) No purpose would be served in raising question of political status of Tibet at this time. Ministry feels that making issue of Tibetan question at present might precipitate Communist decision invade pursuant their declared intention liberating country.

(2) At some time subsequent Indian recognition of Chinese Communist Government, scheduled take place tomorrow, Indian Government may initiate "diplomatic *pourparlers*" with Chinese re status Tibet as GoI strongly in favor of continuance Tibetan autonomy to same extent as has been case in past.

(3) GoI has received number requests for arms and ammunition from Tibetan Government, has complied with some of these requests, and will send more in future. It cannot, however, render active military assistance in form of despatch troops to Lhasa.

(4) Ministry External Affairs has not considered what action should be taken in connection with Tibetan application for membership UN.

It appears clear from foregoing India is not requesting Chinese Communists to respect Tibetan autonomy, or even to recognize previous treaties between China and pre-independence Indian Government dealing with Tibet, as prerequisite to establishment relations. Embassy inclined doubt GoI will press Chinese Communists strongly re recognition Tibetan autonomy even if "diplomatic *pourparlers*" mentioned by Jha initiated at all, since Pannikar, Indian Ambassador China, will probably not wish allow question future Tibet disturb cordial relationship he hopes establish between Indian Government and Chinese Communists. We have impression amount of arms sent Tibet is negligible.

HENDERSON

⁴⁹ C. S. Jha, Joint Secretary of the Indian Ministry of External Affairs in charge of American Affairs.

EFFORTS OF THE CHINESE GOVERNMENT TO CLOSE TO SHIPPING CHINESE PORTS UNDER COMMUNIST CONTROL; ATTITUDE OF THE UNITED STATES REGARDING RESTRICTIONS AND DEFIANCE OF THEM BY CERTAIN AMERICAN FLAG VESSELS

893.801/6-649 : Telegram

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

CANTON, June 6, 1949—7 p. m.
[Received June 7—4:55 a. m.]

Cantel 540. In strictest confidence source should be protected, Tung Ling, Vice Minister Foreign Office, told me today Chinese Government plans immediate future announce that Shanghai is theater military operations and that foreign vessels will enter port at peril. As belligerency of Communists unrecognized, Chinese would carefully avoid use of word blockade, but they had every intention, he said, of bombing shipping in port Shanghai and approaches thereto.

Sent Department Cantel 540; repeated Nanking 366, Shanghai 312.

CLARK

893.1561/6-1649 : Telegram

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

CANTON, June 16, 1949—5 p. m.
[Received June 17—3:27 a. m.]

Cantel 597. Tung Ling, Vice Foreign Minister, tells me Minister National Defense¹ has drawn up definite plan for closure all ports in Communist hands and that in next day or two we would receive formal notification from Chinese Government closure these ports. Action would apply to aircraft as well as surface vessels.²

Sent Department, repeated Nanking 399, Shanghai 342.

CLARK

¹ Marshal Yen Hsi-shan, President of the Chinese Executive Yuan (premier).

² For text of notification dated June 20, see telegram Cantel No. 638, June 23, p. 1103.

893.801/6-1749 : Telegram

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

SHANGHAI, June 17, 1949—5 p. m.

[Received June 17—8:43 a. m.]

2331. Re Cantel 597 to Department, while am not familiar resources Nationalist Government may have to enforce air and sea blockade all Commie-held ports, sincerely doubt these adequate make any such blockade effective.

Would appreciate some indication from Department of line it proposes to adopt if such blockade declared and proves ineffective.

Re Shanghai, I imagine fairly effective sea blockade could be established as the apparently imaginary mining of Yangtze has shown. In any case, heavy war risk insurance rates and small amount of business available may discourage many vessels from entering Shanghai.

Sent Department 2331, repeated OffEmb Canton 735, Nanking 1230.

CABOT

893.801/6-1649 : Telegram

The Acting Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton.³

WASHINGTON, June 20, 1949—7 p. m.

TelCan 358. Re ur 540 June 6 and 597 June 16, Dept desires unless you perceive objection thereto that you convey fol in substance orally and informally Li Tsung-jen⁴ or Yen Hsi-shan. Dept leaves it to ur discretion whether you inform Tung Ling of what you have done.

US Govt has received reliable reports that Chi Govt intends announce Shanghai theater mil operations, that fon vessels will enter port at their peril and that Chinese Govt has every intention bombing shipping in port Shanghai and approaches thereto. US Govt assumes that before taking measures of this sort Chi Govt will weigh carefully any apparent advantages against effect these measures might be expected to have in inflaming active hatred Chinese public in Shanghai and elsewhere against Govt and effect which such attacks might have on public opinion in fon countries now sympathetic to Chi Govt and furthermore that Chi Govt will have considered possibility that many countries may not acquiesce in what would amount to blockade Shanghai port not declared as such and enforced only by occasional air attacks. If such measures undertaken US Govt wld itself have to consider carefully its own position in light its historic attitude respecting

³ Sent also to the Consul at Taipei as No. 143 and repeated to the missions in Nanking, Shanghai, and London.

⁴ Acting President of the Republic of China.

blockades and did not of course countenance unprovoked bombing Amer vessels.

For Taipei. Dept desires Con Taipei seek opportunity convey substance foregoing informally orally Gov Chen Cheng.

Dept informing Brit Emb, Washington of reports referred to above and steps US Govt taking with suggestion Brit may wish take similar action.

WEBB

893.801/6-2149 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, June 21, 1949.

[Received June 21—1:23 p. m.]

245. Following just received from local Foreign Affairs Commissioner:

“With reference to your inquiry as whether US ships may clear the Customs for Shanghai en route to US, we wish to inform you that, according to the regulations in force, no ships, Chinese or foreign, may clear the Customs for such ports as Tientsin, Tsingtao and Shanghai. As to foreign ships intending to go to Shanghai en route to foreign ports, the Maritime Customs Office can only clear them for the foreign ports direct, except in cases in which the Customs Office has been instructed by the Provincial Government to give special permission.”

Sent Department 245, repeated OffEmb Canton 93, Nanking 167, Shanghai 183.

EDGAR

893.801/6-2249

*The British Embassy to the Department of State*⁵

ROLE OF CHINESE AIR FORCE IN PROPOSED BLOCKADE

It is assumed that the Chinese Government must rely almost entirely on their Air Force based on Formosa to maintain their proposed blockade. If the Chinese Government adopts a recalcitrant attitude to our representations in regard to the blockade, it is hoped that the

⁵ Handed on June 22 by the First Secretary of the British Embassy (Ford) to the Assistant Chief of the Division of Chinese Affairs (Freeman).

State Department will seriously consider cutting off supplies of aviation spirit.

If United States officers are still in Formosa engaged in training the Chinese Air Force, possibly they would be in a position to exercise direct pressure on the units concerned in the interests of good sense and reason.

WASHINGTON, 22 June, 1949.

893.801/6-2249 : Telegram

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

SHANGHAI, June 22, 1949.

[Received June 22—9:23 p. m.]

2415. On June 21, Master [of] *General Gordon* informed manager APL⁶ who boarded vessel at Woosung that at 0815 hours same morning two P-51 planes circled his ship and strafed the quarantine vessel lying nearby but no casualties. Presumably same planes attacked *Anchises*.⁷ Master *Gordon* intercepted *Anchises* radio message to their Shanghai agents informing of attack and relayed information to APL head office San Francisco who ordered him omit Shanghai and proceed immediately Hong Kong.

Gordon sailed for Hong Kong 1440 hours June 21. On return trip Shanghai by launch APL manager personally inspected *Anchises*; vessel beached Gough Island and down by stern to after rail. Stern extends out into-river but does not obstruct channel. Shanghai Dockyards Ltd. have repair crew working on ship. SS *Foochow* with same agents Butterfield and Swire⁸ arrived Shanghai wharf 1145 hours today. This regardless another bombing Woosung area this morning. Ships known to have been diverted from Shanghai are American, *California Bear*, due June 21, *President Pierce*, due June 25, *Oregon Mail*, due June 27, Philippine *Rebeverett*, due June 26, Norwegian *Burnside*, due June 21; some others still uncertain.

No further news tanker *Rum River*. Texas tanker *Paulus Hook* destined Shanghai now Hong Kong waiting orders.

Sent Department, repeated Nanking 1298, Canton 775, Department pass CNO⁹ Washington.

CABOT

⁶ American President Lines.

⁷ British merchant ship.

⁸ British shipping firm in China.

⁹ Chief of Naval Operations.

893.801/6-2249 : Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, June 22, 1949—6 p. m.
[Received 9:36 p. m.]

Cantel 635. Have just received telCan 358, June 20 re Shanghai. Department will have by now received Cantel 624, June 21¹⁰ re Chinese notification intention bomb Shanghai and Cantel 628, June 21¹¹ re Chinese intention in effect blockade entire coast effective midnight June 25. In informal conversation with George Yeh, Acting Foreign Minister, I pointed out that action contemplated was in effect blockade and that blockade to be legal had to be effective. Yeh said use of word "blockade" had been purposely avoided as Government did not wish give recognition Communists as insurgents. I gather Government has firm plan establish effective blockade by sea and air of Shanghai and that port of Shanghai and Shanghai installations, possibly including power plant, will be thoroughly bombed beginning June 26. I have already casually mentioned possibility such action may result in losing public sympathy US but have not made issue of subject. Government is obviously delighted with weapon it has suddenly discovered with success so-called mining approaches Shanghai and intends take advantage thereof. There is even press comment of calling contemplated action "second front". Yen Hsi-shan told me he planned revision military tactics and this action may be first evidence thereof.

In light developments since drafting telCan 358 as outlined above, does Department wish alter or strengthen instructions contained therein?

Sent Department; repeated Nanking 425, Shanghai 363, London unnumbered, Taipei 44.

CLARK

893.00/6-2349 : Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, June 23, 1949—3 p. m.
[Received June 24—4:45 a. m.]

Cantel 636. Took advantage reception previously arranged to stress on personal basis to Chiu Chang-wei,¹² who promised inform Li Tsung-jen, to Acting FonMin George Yeh, to Vice Minister FonOff Tung

¹⁰ Not printed.¹¹ See footnote 14, p. 1103.¹² Secretary and Political Adviser to Li Tsung-jen.

V. 2-2349-4-12-49

Ling, to Minister Education Han Li-wu and to Chen Tai-chu, chief American section FonOff, that American sympathy was intangible thing that might prove invaluable to China and might be lost irretrievably through mistaken tactics. In each case pointed out great difference between surface blockade Shanghai and more or less indiscriminate bombing that city or vessels attempting enter port (Cantel 635, June 22, repeated Nanking 425, Shanghai 363, London unnumbered, Taipei 44).

Found apparently complete understanding each case. Cabinet I am told met 3 hours today to consider just that problem. Initiative has apparently come from Generalissimo¹³ camp and people here do not like it and are trying find means counteract. Trouble seems to be that Taiwan and Generalissimo camp established there are going own way in complete disregard what might almost be called rump government Canton. People here are going through motions governing, but they can't move without Generalissimo. There is much evidence Generalissimo promised Hsu Kan only enough of treasure to keep him from refusing assume office as Finance Minister. All with whom I talked expressed perturbation at trend events and hoped nothing would be done alienate sympathy US public. I gathered distinct impression Canton was unable control action forces established Taiwan and Government here is very definitely disturbed.

This seems to me further evidence of the disintegration I have previously reported.

Sent Department, repeated Nanking 426, Shanghai 365, London unnumbered, Taipei 47.

CLARK

893.801/6-2349 : Telegram

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

CANTON, June 23, 1949. ¹⁴

[Received June 23—6 : 11 a. m.]

Cantel 638. Following is full text translation FonOff Note 5938 [5138], Cantel 628, June 21 :¹⁴

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that the Government of China has now decided that the following regions from the north bank of the mouth of the Min River, longitude 119.40 east and latitude 26.15 north to the mouth of the Liao River, longitude 122.20 east and latitude 40.30 north, which lie along the coast and within the territorial waters of China shall be temporarily closed, and entry therein of foreign

¹³ Chiang Kai-shek, who retired as President January 21, 1949.

¹⁴ Telegram not printed ; it gave substance of Chinese note (893.801/6-2149).

vessels shall be strictly forbidden. Instructions have already been issued by the Government of China that beginning from midnight of June 25 of this year prompt actions shall be taken to prevent violations of this decision by foreign vessels. All foreign vessels shall themselves be responsible for any danger resulting from their violation of this decision.

"The Ministry of Foreign Affairs also wishes to call Embassy's attention to the fact that during the period of rebellion suppression the Government of China decided on June 18 of this year to close all ports originally declared open but no longer under the actual control of the Government of China. Included in this category are Yungchia, Ningpo, Shanghai, Tientsin and Chinghuangtao, where no commercial shipping by sea shall be permitted.

"The Ministry of Foreign Affairs requests the Embassy to give due consideration to this matter and to transmit the contents of this note to the American Government and promptly notify the American shipping companies concerned to act accordingly."

CLARK

893.801/6-2249 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 23, 1949—7 p. m.

TelCan 375. Ur 635 June 22. Dept desires you proceed at once along lines telCan 358 June 20 strengthening ur approach by reference specific bombing raids Shanghai, adding US Govt must of course reserve any rights under internat law with respect injury to Amers or damage to Amer property and emphasizing the effect on Amer public opinion which large scale destruction Amer property or loss Amer lives might be expected to have. Dept studying text Chi note re closing ports in Commie areas and will send separate instrs this connection. Consequently you shld omit at this time material in reftel respecting blockade.

ACHESON

893.801/6-2249 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 24, 1949—8 p. m.

TelCan 384. Ur 638 June 23. Dept desires you deliver to FonOff following note in reply to note of June 20:

"The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of China and has the honor to refer to the latter's note No. 5938 [5138] of

June 20 stating that the Govt of China has now decided that the regions from the north bank of the mouth of the Min River, longitude 119.40 E. and latitude 26.15 N., to the mouth of the Liao River, longitude 122.20 E. and latitude 40.30 N., which lie along the coast and within the territorial waters of China shall be temporarily closed, and entry therein of foreign vessels shall be strictly forbidden. The note under reference adds that instructions have been issued by the Govt of China for the enforcement of this decision beginning from midnight June 25, 1949, and calls attention to a decision by the Govt of China on June 18, 1949, to close all ports originally declared open but no longer under the actual control of the Govt of China.

"As requested therein, the Ministry's note was transmitted to Washington. The Emb is now instructed to state in reply that, despite the friendliest feelings toward the Chi Govt, the US Govt cannot admit the legality of any action on the part of the Chi Govt in declaring such ports and the territorial waters adjacent thereto closed to foreign vessels unless the Chi Govt declares and maintains an effective blockade of them. In taking this position, the US Govt has been guided by numerous precedents in international law with which the Chi Govt is doubtless familiar and has noted that the ports referred to are not under the actual control of the Chi Govt."

Pls report by tel delivery of note in order Dept may release text.

ACHESON

893.801/6-2449 : Telegram

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

NANKING, June 24, 1949—10 p. m.

[Received June 24—2:28 p. m.¹⁶]

1373. Re Cantel 628 to Department June 21,¹⁷ repeated Shanghai 359. Foreign Office note 5938 [5138] announcing certain regions and territorial waters "temporarily closed" and entry therein foreign vessels "strictly forbidden" disclosed evident intent avoid declaration blockade which Nationalists possibly unable make effective or conduct according rules on prize courts, rescuing survivors et cetera. At same time Nationalists avoid recognizing Communists as insurgents or belligerents (as noted Cantel 635 to Department June 22). Such recognition would presumably imply admission that Shanghai port lawfully in Communist hands by right of conquest, in which case doubtful if announcement closing Shanghai and other Communist ports would have any legal effect. Moreover, foreign shipping would then be entitled to usual rights neutrals.

At all times characteristic of China that only certain designated ports are open to foreign ships. This characteristic recognized by US in

¹⁶ Text printed from corrected copy received June 25, 10:30 p. m.

¹⁷ See footnote 14, p. 1103.

exchange of notes attached 1943 Treaty,¹⁸ article 24 commercial treaty 1946¹⁹ and elsewhere. We have also acquiesced in action Chinese Government closing to foreign shipping Tsingtao and Yangtze river ports. Such closings effected by official announcement only. Moreover ports now being closed lack of customs, quarantine and immigration offices. Attempts by foreign vessels to use closed ports would seem equivalent smuggling. In past we ourselves have not hesitated use all appropriate means including gunfire to suppress smuggling, rum-running and violation immigration laws.

Two questions connected manner enforcement remain :

(1) Is safety transit passengers and transit freight unnecessarily endangered by aerial bombing and strafing;

(2) Is closing of ports present stage civil war transparent subterfuge in view Nationalists' supposed inability maintain legal blockade and therefore to be denounced as such ?

First question apparently largely disposed of by Department's press announcement June 23²⁰ that government has notified shipping lines of closure. Presumably few shippers or insurers will disregard notice.

Decision second question seems depend on policy. I feel our attitude should appear passive. A protest against closing Shanghai port plus efforts induce American shipping use port likely to confirm Communists in impression that our trade with China is chief if not sole basis of our political position and in addition so important to US that we prepared run any risk to preserve it. In fact, however, Nationalists have given US opportunity to demonstrate to Communists that Shanghai's foreign trade is far more important to them than to US.

Moreover, Communists appear helpless to protect port and shipping. Within next few weeks possibly months only pressure which could induce Nationalists to withdraw announcement is pressure which foreign powers might be persuaded exert. This seems obvious time to let Communists approach us. We could then point out that if they wish us to protest closure as illegal blockade under international law, they are asking that one canon of international law be invoked their benefit although they are unwilling concede themselves subject other canons. We can also ask if they wish us recognize them as belligerents, and if so what conditions of ours they will accept. In any case first move seems much best left to Communists. I feel consultations with British highly

¹⁸ Signed at Washington, January 11, 1943; Department of State Treaty Series 984, or 57 Stat. (pt. 2) 767. For correspondence, see *Foreign Relations*, 1942, China, pp. 381 ff.

¹⁹ Signed at Nanking, November 4, 1946; Department of State, Treaties and Other International Acts Series 1871, or 63 Stat. (pt. 2) 1299.

²⁰ See release of Chinese note of June 20, Department of State *Bulletin*, July 11, 1949, p. 34.

important in view stake in Hong Kong. Department may wish discuss matter Washington or London.

Sent Department 1373, repeated Canton 581, Shanghai 763.

STUART

893.801/6-2549 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 25, 1949—2 p. m.

TelCan 387. Re Deptel 384 Jun 24. Do not give any publicity US reply Chi Govt note re blockade until instructed by Dept. Report urgently any Chinese Govt reaction.

ACHESON

893.50/6-2649 : Telegram

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

SHANGHAI, June 26, 1949—1 p. m.

[Received June 26—12:50 p. m.]

2496. Following tentative estimate economic consequences Kmt²¹ blockade Shanghai assuming 1 month's effective enforcement:

1. Food: Shanghai probably has sufficient stocks and access interior supplies movable here by rail [or] canal meet essential food needs although food deliveries from rural areas discouraged by higher rural prices, depletion surplus stocks in producing areas due military requisitioning and farmers' insistence on silver dollar. Lack foreign exchange and established program rice procurement make substantial foreign food imports Shanghai within next month unlikely even without blockade. Shanghai presumably ineligible IEFC²² rice allocations.

2. Fuels and power: Shanghai has about 40 days' supply fuel oil at present power load 90,000 kw assuming all stocks physically here irrespective ownership available power purposes only with company bombing losses. Roughly 1,000 tons coal daily possibly obtainable Huainan mines by rail (1 train 30 cars of 30 tons each) and water, sufficient to operate power company's other public utilities at 50,000 kw assuming flow continuous enough met essential needs other than basic industries which presumably would be faced with shutdowns due shortages other materials.

²¹ Kuomintang (Nationalist Party).

²² International Emergency Food Council.

3. Cotton: Shanghai mills have about 6 weeks' supply raw cotton all sources but need at least 200,000 bales foreign cotton carry mill operations present rate capacity through late October. SMCC²³ seeking step-up mill operations despite low raw cotton supply in line policy increase production which will accelerate exhaustion raw cotton. Due quality unbalance stocks mills presumably will be forced slow down suspend operations prior end 6 weeks' period with very serious labor repercussions affecting over 200,000 workers or over 1 million directly dependent on cotton milling for livelihood Shanghai alone.

4. Shipping: Despite possible ineffectiveness Kmt blockade, high war risk rates or refusal Marine coverage may make operations foreign, Chinese ships impossible. Far East Shipping Company has suspended calls member lines on Europe run including APL but excluding Isbrandtsen.²⁴ APL has cancelled cargo bookings destined Shanghai up to August 15. Although Chinese shipping companies have few ships here, hence negligible income, must meet payments family allowances crew members ships moved out of Shanghai. SMCC helping companies meet payments by loans. During blockade heavy reduction stevedoring lighterage expected with slowing down other activities dependent on shipping with direct reactions on foreign exchange banking, marine insurance underwriting and business foreign trade houses. (Even now firms with warehouse stocks keep going by sales to meet payrolls only at expense capital resources.) Bombing attacks on river shipping far west as Nanking [and] Hankow have already occurred which if continued might seriously impede deliveries foods, coal, export goods from upriver ports. Principal bombing targets Shanghai, foreign oil storage tanks, Chinese and foreign shipping airfields. Interior transportation still disrupted and far below pre-1937 levels. Many essentials required keep Shanghai's trade industry functioning either wholly unobtainable from interior or inadequate meet immediate essential needs.

5. Manufacturing: As factories shut down due material power shortages with replacement materials impossible, labor will almost certainly get unruly making large-scale repatriation excess population to rural areas imperative possibly already planned. Already East China Trade Bureau paying premium prices manufactured light bulbs, rubber goods, other products as means enabling companies continue operations despite slack demand and rising payrolls due labor agitation re wage problems. Effect directly inflationary comparable to Nationalist subsidies through Central Bank. Under blockade economic pressure may force general adoption this practice to hold to-

²³ Shanghai Military Control Commission (Communist).

²⁴ American shipping firm.

gether Shanghai's modern economy leading to inflation as virulent as under Nationalists with similar effects despite apparent divergence intentions and policy objectives.

6. Finance: Banks now operating low income levels due trade inactivity which has facilitated currency price stabilization despite cumbersome foreign banking, foreign exchange and trade control machinery. Blockade would force marked reduction volume foreign bank business creating very difficult problem meeting payrolls overhead although staff already reduced.

7. Foreign trade: Shanghai's status world's fourth biggest city largely dependent on active ocean river shipping. Once cut off or seriously curtailed, city's economy will be rapidly strangled due exhaustion remaining material assets. Working capital in terms valuta, fuel, industrial materials consumer goods, all now phenomenally low due broad economic dislocation across board since gold *yuan* conversion and Chiang Ching-kuo²⁵ regime last autumn accelerated by economic disintegration and meteoric inflation between Yangtze crossing April 21 to Shanghai takeover May 28 and worsened by extensive Kmt removals to Canton, Taiwan, Hong Kong, etc., large amounts hard cash and movable assets. Blockade would greatly magnify growing deficits in whole range industrial consumer essentials and increase unemployment, labor difficulties. Even after blockade lifted, substantial time lag needed refill empty pipelines. Quantity imports already paid for remaining unshipped abroad probably insufficient in quantity and poorly balanced as to essentiality meet needs. Labor agitation directed against large firms chiefly foreign; general anti-foreign propaganda and discouraging trade prospects under cumbersome, inept Communist trade foreign exchange regulations directed toward state trading; all factors likely discourage imports financed by foreign exchange held abroad, particularly by foreigners. Recent Communist abrogation GATT²⁶ evidently intention effort deprive imports USA and Britain from benefits may cause countermeasures making Shanghai exports already overpriced in world markets still less competitive. Any event, improbable export availabilities on termination blockade would be sufficient meet US dollars 50 million needed for raw cotton alone, not to mention fuel oil, other industrial materials urgently needed maintain manufacturing even at present low levels.

While blockade might intensify anti-foreign movement, might also eventually impress on Communists extent Shanghai's dependence on

²⁵ Son of President Chiang Kai-shek; from August until November, 1948, he was in charge of economic matters at Shanghai; for correspondence on this subject, see *Foreign Relations*, 1948, vol. VIII, pp. 364 ff., *passim*.

²⁶ General Agreement on Tariffs and Trade signed at Geneva, October 30, 1947; Department of State, Treaties and Other International Acts Series 1700, or 61 Stat. (pts. 5-6).

foreign imports, facilities and personnel for survival as most important center modern economy in China especially if blockade prolonged much beyond month's time limit assumed, when Shanghai might well approach economic chaos.

Sent Department, repeated Canton 804, Nanking 1355.

CABOT

893.00/6-2749

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] June 27, 1949.

Subject: British Attitude With Respect to Aerial Bombardment of Shanghai and Action by the Chinese Government to Close the Chinese Ports Now Under Communist Control.

Attached hereto are copies of two communications which the British Embassy has informally supplied the Department.

Tab A is a summary of Mr. Bevin's protest to the Chinese Ambassador at London on June 21, 1949 in connection with the bombing in Shanghai of the British ship *Anchises* by Chinese Government planes. Mr. Bevin's protest was, as will be noted, couched in strong terms.

Tab B outlines the British reply to the Chinese Government note respecting the closing of Chinese ports now under Chinese Communist control. It may be noted that, whereas our reply (Tab C)²⁷ merely states conditions under which, in our view, the closing of ports in question could be effected legally, the British reply goes much further in that it states (1) that the establishment of a blockade amounts to an assertion of belligerent rights, adding that no indication has been received that the Chinese National Government recognizes or is about to recognize the Chinese Communists as having belligerent status; (2) that according to information available to the British Government the Chinese Government does not have at its disposal armed forces to enable it to exercise a real and effective blockade and (3) that the British Government, on the basis of information presently available to it, is not prepared to respect the blockade.

[Annex 1—Tab A]

*Statement by the British Secretary of State for Foreign Affairs
(Bevin)²⁸*

I summoned the Chinese Ambassador on June 21st and told him that His Majesty's Government were greatly concerned at the bombing

²⁷ See telegram telCan No. 384, June 24, 8 p. m., p. 1104.

²⁸ Text received from the British Embassy.

of the *Anchises*. We had received no notice of Chinese intentions yet one of our merchant ships had been interfered with in an unwarrantable fashion on her peaceful course and members of her crew had suffered injury. The Chinese Government had never claimed belligerent rights. In default of such a claim we could recognize no blockade. No state of war existed but in any event, the use of aircraft to dive-bomb an unarmed ship we regarded as intolerable. It amounted to an unfriendly act. I trusted that full compensation would be immediately forthcoming.

2. The Ambassador explained that he knew nothing until he read the news this morning whereupon he had immediately telegraphed to his Government. He had no reply as yet and could only offer his sincere personal apologies.

3. I thanked the Ambassador but left him in no doubt that the Cabinet felt most incensed about this action of the Chinese Air Force. I asked him to impress upon his Government that I hoped for an immediate expression of regret and agreement to pay compensation in full. A quick and generous gesture was needed to make amends.

[Annex 2—Tab B]

*Outline of British Response to Chinese Note*²⁹

I agree that we should act on similar lines to the Americans. I would *not* however wish to follow them by specifically expressing sympathy.

2. Communication which Mr. Coghill³⁰ makes to the Ministry of Foreign Affairs would be on the following lines:—

It would begin by quoting Chinese communication and go on to state that this appears to H.M.G. to be a Proclamation of Blockade. In the opinion of H.M.G. in the U.K. in cases where hostilities are in progress between the lawful government of a country and insurgent forces, the proclamation of a blockade by the lawful government amounts to an assertion of belligerent rights which should be recognized by outside countries with the further consequence that such rights are thus automatically conferred upon the insurgent party. H.M.G. have received no indication from the Chinese Nationalist Government that they recognize, or are about to recognize, the Chinese Communists as having belligerent status.

3. In the opinion of H.M.G. moreover a mere decree of a lawful government purporting to close ports occupied by insurgents without the maintenance of a real and effective blockade can *not* be regarded as valid inasmuch as it constitutes an attempt to secure the rights of war without regard to the conditions which International Law at-

²⁹ Text received from the British Embassy.

³⁰ John P. Coghill, British Consular officer attached to the British Embassy in China at Nanking, at this time on duty near the Chinese Government at Canton.

tached to their exercise, and that such a decree can *not* therefore be recognized as resulting in a blockade in the sense of International Law. According to the information available to H.M.G. the Chinese National Government have *not* at their disposal armed forces which will enable them to exercise a real and effective blockade over the territorial waters and ports in question. In particular, the Ports of Tientsin and Chinwangtao have been in the hands of the Chinese Communists since January 1949 and December 1948 respectively.

4. In view of the above considerations, H.M.G. cannot accept the announcement referred to above as a valid proclamation of blockade in International Law and, on the information at present available to them, they are *not* prepared to respect it.

5. Mr. Coghill will be instructed to concert action with his U.S. colleague.

893.801/6-2749 : Telegram

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

SHANGHAI, June 27, 1949.

[Received June 27—11:25 a. m.]

2504. A check with local steamship companies indicates that all ships scheduled Shanghai near future cancelled. Reuters reported that Far Eastern freight conference meeting Oslo last week recommended to all members that ships not call North China ports. Shanghai Pilots Association has had no contact with pilot vessel at mouth Yangtze since June 22. British bombed vessel *Anchises* floated and moved up Whangpoo to Holts Wharf for discharge cargo. No other foreign vessel in port.

Repeated Nanking 1362, Canton 809.

CABOT

893.801/6-2749 : Telegram

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

CANTON, June 27, 1949—5 p. m.

[Received June 28—8:02 a. m.]

Cantel 654. Am seeing Li Tsung-jen tomorrow re bombing raids, TelCan 375, June 23, repeated Nanking 735, Shanghai 1273, Taipei 149, London 2168, and in meantime discussed matter Tung Ling, Vice Minister Foreign Office. He says matter was considered from all angles before decision was taken. Government has no intention bomb any foreign vessel outside Chinese territorial waters and, in bombing targets inside Chinese territorial waters, every effort will be made avoid damage foreign shipping. Weapon of air force available Gov-

ernment and unavailable Communists is too valuable, he said, to go unused and Government has taken firm decision bomb strategic targets Communist-held areas. He expressed knowledge our position re damage claims for injuries American lives and property during civil strife, but remarked Latin Americans did not agree with us and denied that our position would prove sustainable. He realized, he said, the seriousness of damage to Government hopes if it were to lose sympathy of US public opinion, but said risks had been taken into consideration when decision was made. Government anticipates restiveness and possible revolts under restraints and hardships of Communist regime in areas controlled by Communists and is determined take such measures as are open to it to exacerbate situation.

Have been unable deliver note re blockade, telCan 384, June 24, because still unbroken garbles. Since sense note is clear, however, I mentioned character our reply to Tung Ling. He said Government had not expected their note to go unanswered and our reply would receive consideration at highest levels. Here again, he said, Government decision had been taken after searching consideration and would not be withdrawn. He said we had not questioned Chinese right close Dairen without declaring blockade and he hoped we wouldn't take serious issue with them in their efforts. Their action will, in effect, be blockade which they intend maintain effectively, but they are most loath to declare blockade and thus give belligerent status to Communists. After all, he said, "wouldn't want to aid the Communists and the trade involved is of slight if any importance to you". Here again he maintained that international law isn't definitely determined and that Government had right take action it had taken. If we decide release notes. Press Foreign Office would like be informed in order that simultaneous release may be made here.

Sent Department Cantel 654, repeated Nanking 437; Shanghai 374, Taipei 49, London unnumbered.

CLARK

893.801/6-2849 : Telegram

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

CANTON, June 28, 1949—5 p. m.
[Received June 29—8:15 a. m.]

Cantel 661. Note regarding blockade (telCan 384, June 24, repeated Nanking 746, Shanghai 1291, Taipei 152) delivered Foreign Office at 5 o'clock today June 28, altered to show correct number of Chinese note as 5138.

Repeated Nanking 441, Shanghai 377, Taipei 50.

CLARK

893.00/6-2849 : Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, June 28, 1949—6 p. m.
[Received June 28—8:55 a. m.]

Cantel 663. Made *démarche* Li Tsung-jen directly, telCan 375, June 23, repeated Nanking 735, Shanghai 1273, Taipei 149, London 2168, re bombing. He replied that most strict instruction had been issued CAF³¹ to bomb only military objectives and that great care should be exercised to hit target. He said bombing *Anchises* was mistake due to over-zealousness CAF in disregard warning deadline. Although he had listened carefully to my remarks, he gave no indication Chinese policy would be altered.

Sent Department Cantel 663, repeated Nanking 442, Shanghai 378, Taipei 51, London unnumbered.

CLARK

893.801/6-2949 : Telegram

The Secretary of State to the Minister-Counselor of Embassy in China (Clark), at Canton

WASHINGTON, June 29, 1949—1 p. m.

TelCan 399. In view distorted versions being reported from Canton of nature US reply to Chinese note re closing ports and fact Secy holding regular scheduled press conference today, Dept compelled issue text US reply to press 11:00 a. m. today. Regret inability coordinate release with FonOff. Pls inform FonOff.

ACHESON

893.801/6-2949 : Telegram

*The Ambassador in the United Kingdom (Douglas) to the Secretary of State*LONDON, June 29, 1949—5 p. m.
[Received 10:24 p. m.]2518. Depintel June 27, 10 a. m.³²

1. Foreign Office states pressed by British shipping interests to clarify Government position in Chinese Nationalist closure ports north of Min River. Foreign Office informed Department that Foreign Office spokesman would probably make statement Commons Wednesday or

³¹ Chinese Air Force.³² Not printed.

Thursday. As Coghill will not present British reply to Canton Government until 30th, statement cannot be made in Commons before Friday, if then.

2. Questioned re next step should Chinese Nationalist Government ignore US-UK replies and bomb and shell US-UK ships and properties, Scarlett³³ stated that would pose new problem for legal experts. Would also bring forward clash between short term and long term policies and objectives. Short term contemplates rehabilitation Shanghai and revival British commercial and shipping interests by use British influence and persuasion but thereby contributing to Chinese Communist influence and power; long term contemplates prevention growth Communist power and in pursuit thereof permitting Shanghai and other Chinese cities to lapse into chaos and starvation. No decision yet.

DOUGLAS

893.801/6-3049 : Telegram

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

PARIS, June 30, 1949—3 p. m.

[Received June 30—12:35 p. m.]

2720. Foreign Office informs us that reply is being sent to Chinese Government's note re closing certain Chinese ports and is similar US note in rejection legality closure.

BRUCE

893.801/6-3049 : Telegram

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

CANTON, June 30, 1949—5 p. m.

[Received July 1—12:17 p. m.]

Cantel 670. Vice Foreign Minister Tung Ling tells me he is working on reply our note re blockade (Cantel 663,^{33a} repeated Nanking 442, Shanghai 378, Taipei 51, London unnumbered). Chinese note, he says, will take line that Chinese position is sustainable under international law and that ours is not. In other words, Chinese Government plans carry on discussion through diplomatic channels, the while enforcing what will in effect be blockade. Tung Ling says that when he was pointing out to Cabinet the advantages and disadvantages of the various measures, open to Chinese Government, he had stressed that,

³³ Peter W. S. Y. Scarlett, Head of the Far Eastern Department of the British Foreign Office.

^{33a} Dated June 28, p. 1114.

whatever decision was taken, it should be held to irrevocably. He assures me that Chinese position having been taken, it will not be changed.

He again referred to our lack of action at time Chinese declared port Dairen closed and said our action that time created precedent which would preclude US from objecting present action Chinese Government closing other ports similarly not strictly speaking entirely within control Nationalist Government. He pointed out this connection Nationalist Government still maintains control ports in question from sea and air; that it has only lost control of ground areas which it intends recover. He hoped in meantime public sentiment in US opposed Communism and favorable Free China would deter US from convoying vessels through prohibited areas. Government is obviously banking on our friendship and unlikelihood that we or British, the principal powers involved, will run risk involved in active measures opposing closure delimited Chinese territorial waters regardless principles international law involved.

Sent Department Cantel 670, repeated Nanking 448, Shanghai 383, Taipei 52, London unnumbered.

CLARK

893.801/6-3049: Telegram

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

SHANGHAI, June 30, 1949—6 p. m.

[Received June 30—11:45 a. m.]

2572. With publication of our note re blockade, questions likely to be raised with Consulate General by local American shipping interests, also by consular colleagues, as to precisely what Department contemplates.

Blockade, while probably not effective at other ports, may well be effective Shanghai. It has not, however, been "declared" and is therefore presumably non-existent in our view. If Nationalists' warships should interfere with American shipping proceeding to or from Shanghai, what action would Department contemplate? Department will appreciate that if any American ship were tied up with heavy demurrage charges through protests, legal red tape and lengthy claims procedure, practical effect would be to discourage American shipping from coming to Shanghai despite our attitude re blockade. On other hand, convoying American shipping limit territorial waters or demanding release of seized shipping with show of force is open to obvious objections. If Department contemplates convoys, Nationalists' warships might still serve ships within territorial waters. Would Department,

in this event, authorize convoys within territorial waters if Commies' informal consent to such convoys obtained? Secretary's quoted remarks appear suggest that we will not use convoys, but will make claims in behalf American citizens suffering property loss. Clearly American shipping interests are suffering property loss every day their ships in practice are prevented from entering Shanghai by Nationalists' forces. What action, if any, does Department contemplate taking this regard? Would appreciate urgent instructions.

Sent Department, repeated Nanking 1413.

CABOT

893.801/7-149 : Telegram

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

CANTON, July 1, 1949—9 a. m.
[Received July 1—1:42 a. m.]

Cantel 673. Acting Foreign Minister George Yeh, who handed me text which is quoted below, in translation, of Chinese reply [to] our note 265, June 28, on blockade, Cantel 670, June 30, repeated Nanking 448, Shanghai 383, Taipei 52, London unnumbered, told me Chinese determined deny to Communists facilities ports involved. Chinese will do everything in their power to avoid incidents and they hoped we would cooperate. They felt their interpretation of the principles of international law involved is the correct one and plan to maintain their stand. Text which follows will be released to appear press Canton morning July 2.

"The Ministry of Foreign Affairs of the Republic of China presents its compliments to the Embassy of the United States of America, and has the honor to refer to the latter's note, No. 265, of June 28, 1949, setting forth the position of the United States Government with regard to the closure by the Chinese Government of certain parts of its territorial waters and the ports therein.

"In reply, the Ministry has the honor to state that the Chinese Government deems it within the sovereign right of a state to declare open or closed any part of its territories, whenever conditions necessitate. In fact, the Chinese Government has exercised in the past on more than one occasion the right to close some of its ports, and no question of legality has been raised by any government, including that of the United States. Fort Dairen, for instance, was declared closed at a time when it was not under the actual control of the Chinese Government. The closure order under reference is, in effect, of a similar nature and is, therefore, enforceable independently of a declaration of blockade, which has never been, and is not, under the contemplation of the Chinese Government.

"In stating its position, the Chinese Government also wishes to assure the United States Government that in the execution of the closure order it will undertake to do its best to avoid any unnecessary hardship or loss to the nationals of the United States. The Chinese Government hopes, therefore, that in view of the friendly feelings happily existing between the two peoples, the United States Government will see its way to cooperate with it so as to prevent any untoward incident.

"The Chinese Government has the honor to request the Embassy of the United States of America to be good enough to transmit at its earliest convenience the above reply to the Government of the United States. June 30, 1949."

Sent Department; repeated Nanking 451, Shanghai 386, Taipei 53, London unnumbered.

CLARK

893.801/7-749 : Telegram

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, July 7, 1949—6 p. m.

[Received July 7—5:39 p. m.]

2649. Canton's Cantel 670 and 673 to Department re closure Chinese ports. Scarlett, Foreign Office, states Foreign Office considering reply to latest Chinese note but will require ministerial conference for approval. Also that in his personal opinion it very doubtful that British Government would consent convoy British merchant ships through waters closed by Nationalists.

DOUGLAS

893.801/7-849

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] July 8, 1949.

The attached copies of British and French notes to the Chinese Government³⁴ indicate that neither Government is prepared to recognize the Chinese closure of certain ports and territorial waters to foreign vessels.

The formal British reply (Tab A) contends that the Chinese action does not fulfill the conditions requisite to a blockade, i.e., declaration, maintenance of its effectiveness, and recognition of the belligerent status of the other party. Omitted from the formal text is the following statement which appeared in the outline of the proposed British reply which I forwarded to you on June 27, 1949:³⁵ "According to the

³⁴ None printed.

³⁵ See Annex 2 to memorandum of June 27, p. 1111.

information available to H.M.G. the Chinese National Government have not at their disposal armed forces which will enable them to exercise a real and effective blockade over the territorial waters and ports in question".

Apparently, in reply to the Chinese warning the British refused further (Tab B) to accept the Chinese disclaimer of responsibility for possible damage to British interests or property in this connection, and hold the Chinese responsible for any "untoward consequences" of exercise by British vessels or ships of their "inherent right of self defence or protection against hostile action".

This French reply (Tab C) is generally similar to the British and our own, although without mentioning the word "blockade". It does go further in making express reservations "upon the consequences and responsibilities which might result" from Chinese prohibition.

893.801/6-3049 : Telegram

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

WASHINGTON, July 8, 1949—6 p. m.

1372. (1) Dept agrees legal blockade nonexistent. Your 2572, June 30.

(2) As to action contemplated if Nationalist warships interfere with Amer shipping proceeding to or from Shanghai, would depend upon particular circumstances. For example if visit and search or seizure as prize, protest undoubtedly follow and legitimate Amer interest protected.

(3) Convoys not in contemplation.

(4) Claims in behalf Amer citizens suffering property loss will be presented in appropriate cases; however, losses sustained not as direct result of illegal act but as general result of disturbed situation or armed conflict not proper subject claims.

Above to be given no general publicity. Paras (1), (2) and (4) may be used as background in response to legitimate inquiries from Amer interests.

ACHESON

893.00/7-1149 : Telegram

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

CANTON, July 11, 1949—4 p. m.

[Received July 11—12: 19 p. m.]

Cantel 712. As Department aware my efforts Canton cause cessation indiscriminate bombing have met only with expressions firm

determination take full advantage that means harassing Communists, but with categorical statement that definite instructions had been issued to CAF to bomb only military objectives, Shanghai's 2666, July 8, repeated Canton 864.³⁶ Government here does not control CAF; consequently representations Canton likely have little effect. Nevertheless have taken every opportunity raise subject [with] Generalissimo³⁷ camp here, last being Wu Tieh-cheng.³⁸

As Generalissimo controls CAF, Department may wish call in Chinese Ambassador and stress inflammatory situation which is resulting from use of American supplied equipment. Koo may have direct access to Generalissimo. It might even be well suggest that continued indiscriminate bombing might prejudice consideration ECA.³⁹ requests outlined Toeca 344, July 7.⁴⁰

Repeated Shanghai 410.

CLARK

893.00/7-1149 : Telegram

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

CANTON, July 11, 1949—5 p. m.
[Received July 13—8:58 a. m.]

Cantel 730. In effort get our views regarding bombing to Generalissimo camp, explained our position [to] Hollington Tong⁴¹ today, Cantel 663, June 28. He agreed we had point and I gather my remarks will reach Generalissimo. In any event, should I see Generalissimo while he is in Canton, shall discuss matter direct with him.

CLARK

893.00/7-1449 : Telegram

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

NANKING, July 14, 1949—6 p. m.
[Received July 14—10:58 a. m.]

1525. Re Shanghai's 2667, July 8 to Dept,³⁶ repeated EmbOff Canton 864. We concur with recommendation in Shanghai's reference telegram that we should make representations against Nationalist air attacks on Shanghai and other large population centers not only be-

³⁶ Not printed.

³⁷ Chiang Kai-shek.

³⁸ Minister without Portfolio.

³⁹ Economic Cooperation Administration.

⁴⁰ See footnote 29, p. 796.

⁴¹ Director of the Kuomintang Information Department.

cause of inflammation of anti-American sentiment but also on humanitarian grounds and because of their doubtful military utility in any case. We recall that representations to Chinese Government last November re Nationalist bombing of Mukden seemed to have some effect, though representations were limited to concern over American lives and property Mukden.

Sent Department 1525, repeated Shanghai 856, EmbOff Canton 637.

STUART

893.801/7-1649 : Telegram

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

CANTON, July 16, 1949—4 p. m.
[Received July 16—11:02 a. m.]

Cantel 748. Aside from British who have sent second note maintaining illegality Chinese action closing Chinese territorial waters, so far as I can ascertain, French and Italians have followed line similar ours. Cantel 673, July 17 [1], repeated Nanking 451, Shanghai 386. Portuguese have refrained even from acknowledging receipt FonOff message and according FonOff certain South American countries have agreed on legality Chinese measures as has also Greece.

Sent Department; repeated Nanking 494, Shanghai 425.

CLARK

893.00/7-1849 : Telegram

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

CANTON, July 18, 1949—9 a. m.
[Received July 18—6:48 a. m.]

Cantel 753. Took advantage conversation Wang Shih-chieh, former Foreign Minister, very close Generalissimo, to say my piece on indiscriminate bombings Shanghai and other places with American supplied equipment, Cantel 663, repeated Nanking 442, Shanghai 378, Taipei 51, June 28. Dr. Wang appeared much impressed with arguments and said he would immediately see they were placed before Generalissimo.

Sent Department Cantel 753, repeated Nanking 499, Shanghai 428, Taipei 61.

CLARK

893.801/7-2049

*The British Embassy to the Department of State*⁴³

The following telegram has been received by the British Embassy from the Foreign Office. The views of the State Department upon it are urgently requested.

"The Nationalist blockade appears effectively to have closed the port of Shanghai where the economic situation is acute. With a view to checking a deterioration in this situation which may well produce chaos, I am considering whether it is possible to bring some measure of relief by organising deliveries of essential supplies, notably of rice and fuel.

2. I fully share the views of the United States Government as to the undesirability of relief measures on scale sufficient to benefit the Communist economy so long as the Communists maintain their present attitude to our business interests, but I feel we cannot disregard the danger to which our communities will be exposed if public utilities break down for lack of fuel or food riots ensue.

3. I should accordingly be grateful if you will put this consideration to the State Department, asking them as a matter of urgency for their views and whether they would be ready to co-operate in this limited task. We have not yet made up our own minds on the subject but should be grateful for some indication of United States views in order that the problem may be considered by Ministers on Friday morning, 22nd July.

4. I realize that this poses the question of the Nationalist blockade. It is for consideration whether pressure should not be brought to bear on the Nationalists to relax it to the extent of admitting these relief ships or whether such ships should travel in a protected convoy. I believe the former course is worth considering and it has been suggested that the Commander-in-Chief, Far Eastern Station, might take the opportunity provided by a visit of his Deputy Chief of Staff to Formosa to explain our intention frankly to Admiral Kwai⁴⁴ on a purely naval basis."

WASHINGTON, 20 July, 1949.

893.801/7-2049

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse)*

[WASHINGTON, July 21, 1949.]

At a meeting this morning, attended by Ambassador Jessup,⁴⁵ Mr. Fisher,⁴⁶ Mr. Butterworth and Mr. Sprouse, the following decision

⁴³ Handed on July 20 by the Counselor of the British Embassy (Meade) to the Director of the Office of Far Eastern Affairs (Butterworth).

⁴⁴ Admiral Kwei Yung-ching, Commander in Chief of the Chinese Navy.

⁴⁵ Philip C. Jessup, Ambassador at Large.

⁴⁶ Adrian S. Fisher, Legal Adviser.

was reached with respect to the reply to be made to the British Government's inquiry regarding the delivery of essential supplies to Shanghai, as set forth in the attached *aide-mémoire* handed by Mr. Meade of the British Embassy to Mr. Butterworth on July 20:⁴⁷

1. The United States Government cannot join in arrangements for the delivery of supplies to Shanghai as suggested in the British Embassy's *aide-mémoire*.

2. The United States Government suggests that the British Government consider the desirability, in whatever action it may take in this matter, of avoiding any inference to the Chinese Government of recognition of a "blockade" of Chinese ports. This could be achieved by indicating to the Chinese Government, in any approach that might be made to the Chinese authorities, that, while the British and Chinese Governments' views of the legality of the order for the closure of Chinese ports differ, the British Government desires to avoid any incidents in connection with the delivery of relief supplies to Shanghai; the British Government also wishes to receive assurances from the Chinese Government that any British ships engaged in this operation not be subject to any measures, such as bombing attacks, which would endanger the ships or members of their crews.

3. The United States Government holds the view that, if the British Government should undertake the delivery of these supplies to Shanghai, it should do so as a temporary emergency measure for relief purposes and without prejudice to the discussions between our two Governments of the larger problem of relations with the Chinese Government and questions relating to the Chinese Communists.⁴⁸

893.48/8-149

Memorandum by the Chief of the Division of Chinese Affairs (Sprouse) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] August 1, 1949.

During a call at my office today Mr. Meade, Counselor of the British Embassy, again asked if I could give him a reply regarding the British proposal⁴⁹ for the sending of relief ships to Shanghai. He handed me the attached document,⁵⁰ a summary of a telegram from the Foreign Office dated July 29.

I outlined to Mr. Meade the general steps that we had taken with respect to the question of the evacuation of American and other foreign nationals from Shanghai, pointing out that these matters were being discussed in Shanghai among the concerned foreign organizations. I pointed out that our chief concern in this respect is the problem of

⁴⁷ *Supra*.

⁴⁸ Oral reply made July 21 to the British Embassy in accordance with memorandum. For memorandum of July 25, see p. 1273.

⁴⁹ See memorandum of July 25 by Mr. Sprouse, p. 1273.

⁵⁰ *Infra*.

evacuating those American citizens who might want to leave and that in a sense it seems paradoxical to provide foodstuffs at this time which might lead to the impression that as long as they remained in Shanghai efforts would be made to continue such arrangements. I suggested that it would be desirable for discussions regarding any shipments of relief supplies to take place among the concerned foreign organizations at Shanghai, who would be responsible for arranging for the shipment and entry of and payment for such supplies. I said that in the event American organizations wished to and were able to arrange for shipment of such supplies, we would be willing to associate ourselves with the British Government in approaching the Chinese Government in connection with the passage of evacuation ships carrying such supplies. I pointed out, however, that it was highly likely that the Chinese Government, while willing to agree to the safe passage of evacuation ships, might not be willing to allow the entry into Shanghai of such ships if they carried foodstuffs for the foreign community.

893.48/8-149

*The British Embassy to the Department of State*⁵¹

SUBSTANCE OF TELEGRAM FROM FOREIGN OFFICE DATED 29TH JULY, 1949

Since the position of foreign nationals in Shanghai continues to deteriorate, His Majesty's Government would appreciate an early reply from the State Department on the question of sending relief ships.

The provision of such ships would materially ease the position and firms might thereupon be ready to carry on at any rate for some time longer. It has therefore become a matter of urgency to try to get some ships through, and we hope that the State Department will agree to an attempt being made on the lines previously suggested.

Our policy has been to keep a foot in the door in China, and we understand that the United States Government agrees with this policy. We have always recognised that the Communists will eventually try to force out our foreign trading interests when they are ready to conduct state trading on the recognised communist pattern, but if our interests are to be forced out now then we shall have nothing in hand with which to bargain.

Though Communist China will undoubtedly suffer if all trading with the West ceases, the Communists will acquire a valuable propaganda weapon and will represent us to the Chinese people as being responsible for all their hardships. It does seem to us therefore that we should continue to make some effort to keep a foot in the door. The Nationalist blockade, which both our governments regard as

⁵¹ Handed to Mr. Sprouse by the Counselor of the British Embassy (Meade) on August 1.

illegal, is serving no useful purpose for the Nationalist cause, and it is not hurting the Communists as much as it is hurting the Chinese people and the foreign business communities. It is not a question of sending any supplies which will ease the position of the Communists, but of enabling foreign trading interests to survive.

893.48/8-549

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] August 5, 1949.

Mr. Meade called by appointment this afternoon and handed me the attached document,⁵² the substance of a telegram from the British Foreign Office dated August 4, regarding the delivery of relief supplies to Shanghai.

It will be noted that the British Government apparently proposes to instruct its representatives at Canton to approach the Chinese Government regarding the entry of ships into Shanghai "for the dual purpose of evacuating foreign residents and carrying relief supplies". I pointed out to Mr. Meade that this telegram was rather vague in its reference to relief supplies, there being no indication that they were intended solely for the foreign community. I said that in my opinion it would be both unnecessary and undesirable to approach the Chinese Government in regard to the entry of a ship, or ships, into Shanghai until evacuation plans have proceeded to the point where we actually know the name of the ship and the date of its proposed departure for Shanghai. I said that I would, however, discuss this with Mr. Butterworth and let Mr. Meade know as soon as possible. He suggested that we give him a piece of paper indicating the type of instructions we would be prepared to issue to our representatives at Canton in this regard.

893.48/8-549

*The British Embassy to the Department of State*⁵³

SUBSTANCE OF TELEGRAM RECEIVED FROM FOREIGN OFFICE ON
AUGUST 4TH
SUPPLIES FOR SHANGHAI

Please inform the State Department that as soon as we hear that they are prepared to take broadly similar action we propose to instruct

⁵² *Infra.*

⁵³ Handed to Mr. Sprouse by the Counselor of the British Embassy (Meade) on August 5.

Mr. Coghill to approach the Chinese National Government on the following lines.

The Chinese Government are aware of our views on their attempts to close certain Communist-held ports to shipping. But entirely without prejudice to our views on the illegality of the action taken by the Chinese Government, which views remain unchanged, we hope that they will be prepared to give undertakings not to interfere with certain specific ships which it is proposed should shortly proceed to Shanghai for the dual purpose of evacuating foreign residents and carrying relief supplies. The mission of these vessels would be entirely humanitarian. The cargoes would consist of essential supplies notably rice and fuel. Full details of the vessels involved and the cargoes to be carried would be communicated in each individual case.

893.801/8-749 : Telegram

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

NANKING, August 7, 1949—noon.
[Received August 7—2:22 a. m.]

1733. Before his departure,⁵⁴ Ambassador learned from reliable source of conversation between General Chen Yi⁵⁵ and Chen Ming-shu⁵⁶ in Shanghai which may offer some explanation Communist allegations Communist China port blockade is of American origin. (See Shanghai telegram 2906, July 23, repeated Nanking 1634.⁵⁷) Chen Yi said Communist intelligence reported that it was Admiral Badger⁵⁸ who had first suggested idea of blockade to Generalissimo. He added that it was obvious, in light this suggestion, that blockade represented official US policy. Source of report locally was Lo Hai-sha, confidant of Chen Ming-shu and latter's Nanking representative.

While we are not inclined give credence to this piece Communist intelligence, it may indicate predilection of CCP⁵⁹ agents for reporting what they think their superiors would like to hear. Likewise possible this allegation will be introduced into CCP propaganda re blockade at opportune moment.

JONES

⁵⁴ For departure of the Ambassador from China, see vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists".

⁵⁵ Communist mayor of Shanghai.

⁵⁶ Shanghai representative of the Kuomintang Revolutionary Committee (KmtRC) cooperating with the Communist Party.

⁵⁷ Vol. VIII, "Political and military situation in China", chapter VI.

⁵⁸ Vice Adm. Oscar C. Badger, Commander, U.S. Naval Forces in the Western Pacific.

⁵⁹ Chinese Communist Party.

893.24/8-949

Memorandum by the Chief of the Division of Chinese Affairs (Sproue) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] August 9, 1949.

The following message from the Commander of the Sixth Task Force to the Chief of Naval Operations⁶⁰ has been brought informally to CA's attention by Captain Warder, of the Navy Department, who states that no reply will be made without prior clearance with this Department.

"From COM 6THTASKFLT
To CNO

050437Z

Admiral Kwei,⁶¹ Chinese Navy, has requested information concerning availability and procurement procedure about 6 seaplanes or amphibians purpose reconnaissance assistance to Nats Navy on port and coastal closure. Undecided best type but mentioned *Catalina* or *Grumman* amphibious types. From limited knowledge his problems appears probable that small float plane types might also be of use and economical in cost and upkeep. Request advise soonest re availability types mentioned surplus or other procurement and recommended contacts to whom Adm Kwei may refer his representatives.

Passed to State 8/5/49"

Captain Warder states informally that the United States Navy can probably make aircraft of the type mentioned available. The Munitions Division states that the Army has available as surplus 19,000 Reising .45 caliber submachine guns. The guns are considered obsolete by the Army; there are no spare parts for them; and they are not desired by northern European or other MAP⁶² countries. However, the Chinese are aware that the weapons are available and are interested in purchasing them.

A decision with respect to action to be taken in the two cases mentioned above, and in similar cases which it may be anticipated will arise, would appear to depend upon an evaluation of the following factors:

- (1) The extent to which we can hope by continued aid of the nature in question to multiply the internal problems of the Chinese Communists and eventually discredit it.
- (2) The costs of such assistance to us within China.

⁶⁰ Adm. Louis E. Denfeld.

⁶¹ Vice Admiral Kwei Yung-ching, Commander in Chief of the Chinese Navy.

⁶² Military Assistance Program.

With respect to (1), it should be noted that the "blockade" of Shanghai appears to be causing mounting difficulties to the Chinese Communists in their economic and social administration of the city. Continuance of the "blockade" and extension of its effectiveness to other Communist-held ports would doubtless increase these difficulties. In view of British reluctance to join us in a comprehensive system of export controls, this might be the only means by which comparatively free access to Western markets can be denied the Communists. Since the "blockade" is beyond United States control, it does not, of course, afford us a bargaining lever for use with the Communists, as would an effective system of export controls. But, if extended in effectiveness, the "blockade" would inflict on the Communists even more damage than could be even threatened by export controls. Taken in conjunction with other economic difficulties which the Communists are reportedly encountering, the difficulties arising from the "blockade" might be expected to delay the consolidation of Communist control; to result in the increasing commitment of Communist strength to maintaining order in rear areas, with eventual weakening of its drive southward; and to lessen Communist prestige in China and Eastern Asia. However, it appears doubtful that the difficulties would significantly affect current military campaigns of the Chinese Communists and, they will probably cause intensified efforts by the Communists to obtain control of Taiwan, or at least important segments of the Chinese Navy and Air Force. Furthermore, it does not seem likely that in the specific cases mentioned above the military equipment under consideration would contribute significantly to the enforcement of the "blockade", in which case we should, by making the equipment available, incur all the costs with little or no substantial benefit.

With respect to the costs within China, it should be noted that the American Chambers of Commerce at Shanghai and Tientsin and the American Association at Shanghai have gone on record as opposing further military aid to the Chinese Government because of the increased peril in which Americans in Communist-controlled areas would be placed. There is little doubt that the further supplying of military equipment to the Chinese Government, particularly military equipment useful either in enforcing the "blockade" or bombing Chinese cities, would be used by the Communists to incite public opinion against private Americans, who, as economic conditions deteriorate under the "blockade", would be in grave danger of mob violence. In view of the gravity of this danger to Americans and the inability of our consuls under existing circumstances to afford them adequate protection, it would seem imperative that an all-out effort be made to evacuate Americans who wish to leave prior to any further transfers

of military equipment to the Chinese Government. Apart from immediate considerations of personal safety, it should be noted that the enforced liquidation of American enterprises and withdrawal of American citizens which the "blockade" is to some degree causing, will lessen the effectiveness of what, over the long view, might have been a useful channel for influencing Chinese thinking.

From reports of our military and diplomatic representatives in China, it appears most unlikely that the transfer of military equipment under consideration could affect the final outcome of the present struggle in China. Similarly, a large segment of the Chinese public would view the further supplying of military equipment to the Chinese Government as merely prolonging a hopeless struggle with increased suffering to the Chinese people. The Chinese Communists would doubtless effectively exploit this theme to create increased hatred of the United States.

Finally, the continuance and extension of the "blockade" tends to prevent any concrete demonstration to the Chinese Communists of the usefulness of cooperation with the Western democracies. At the same time, the continued existence of an armed and organized opposition to the Chinese Communists, particularly an opposition receiving continuing American support, tends to reduce any possibility which might exist of a developing Communist independence from Moscow, for, even were conditions otherwise favorable, it would be most unlikely that the Chinese Communists would risk Soviet hostility until their own internal position had been consolidated.

In view of the far-reaching consequences of any decision which may be made respecting this problem, it might be desirable to discuss the matter with Ambassador Jessup and Mr. Merchant.⁶⁸

893.801/8-1049: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 10, 1949—4 p. m.

[Received August 10—11: 20 a. m.]

3155. Only foreign ships entering Shanghai during July and since beginning so-called blockade June 25 were British tug *Caroline Moller* from Manila which towed disabled SS *Anchises* to Kobe leaving Shanghai July 29 and 1 small Japanese, *Kosuka Maru* 20 NRT entered from Japan July 16, cleared for Chinnampo, North Korea, 19th. Three small Chinese ships entered from Chinese coastal ports, 2 for

⁶⁸ Livingston T. Merchant of the Office of Far Eastern Affairs.

Tientsin, 1 for Julian [?]. All 6 under 100 NRT. This is full extent custom clearances but there are reports some small sailing craft are slipping through with passengers and cargo. Re large vessels blockade has been completely effective. On August 2 British *Edith Moller* 260 registered tons arrived from Hong Kong. Cleared for Hong Kong Aug. 8. July customs clearances for Yangtze River ports were: Ships under 100 NRT 313 totaling 12526 tons. One hundred to 999 NRT 192 totaling 38069 tons. Over 1000 NRT 11 totaling 25557 tons. Entries from Yangtze ports. Under 100 NRT 320 totaling 12885 tons. One hundred to 999 NRT 194 totaling 41485 tons. Over 1000 NRT 6 totaling 11521 tons. Figures on sailing vessels not available but it is known they are used extensively. Dearth of larger ships continues with no increase in sight while Shanghai remains closed port. LST's and LSM's which are known to remain Communist hands now being used mostly for military purposes and not available commercial trade. Local Chinese press reports plans of Communists for building ships and establish inland services but this considered unlikely accomplishment near future.

Sent Department 3155, repeated Nanking 1731, Canton 977.

McCONAUGHY

893.801/8-1349

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] August 13, 1949.

Mr. Meade telephoned this morning to state that the Foreign Office had instructed the British Embassy Office at Canton to approach the Chinese Foreign Office with respect to the safe passage of ships proceeding to Shanghai. He explained that the British approach authorized was the same as that previously set forth in a telegram from the British Foreign Office, a summary of which had been handed to me on August 5 (copy attached⁶⁴), except for the deletion of the penultimate sentence. This sentence related to the transportation by the ships of relief supplies "notably rice and fuel" and the approach as authorized merely covered the transportation of "relief supplies" or "cargo" without any description of the cargo or any indication that the "relief supplies" would be intended solely for the foreign community.

(The foregoing serves to strengthen my earlier opinion that the British may be trying to utilize the evacuation program for the purpose of reestablishing commercial traffic into Shanghai.)

⁶⁴ *Ante*, p. 1125.

893.801/8-2749 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 27, 1949—2 p. m.

[Received August 27—4:20 a. m.]

3498. A. P. Pattison, local agents Isbrandtsen Co., informed Con-Gen they plan bring SS *Flying Independent* into Shanghai about September 9. Vessel will be en route Hong Kong to Taku Bar and is expected load cargo Hong Kong for Shanghai, Shanghai for Tientsin and Shanghai for USA via Suez. Pattison states owners have agreed to call. In view Chinese naval vessel having prevented British SS *Edith Moller* from entering Shanghai August 23 (refContel 3482, August 26⁶⁵), it seems possible *Independent* may also be detained.

Sent Department, repeated Nanking 1849, Hong Kong 212.

MCCONAUGHY

893.801/8-2749 : Telegram

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

CANTON, August 27, 1949.

[Received August 27—8:43 p. m.]

[Cantel] 1031. Embassy received following note, dated August 24, 1949 from FonOff:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy. It has the honor to refer to its note of June 20, 1949,⁶⁵ in which the Ministry of Foreign Affairs requested the Embassy to take due note of the Chinese Government's proclamation on the temporary closure of part of its territorial waters and certain sea-ports and to transmit the contents of this note to the American Government and also to notify American shipping companies to observe these regulations.

"The Chinese Government has now further decided that from midnight, August 27, 1949, the following regions:

"From the north bank of the mouth of the Min river (longitude 119 degrees 40 minutes east, and latitude 26 degrees 15 minutes north and south) to the north part or [of] the mouth of Wei Tou Bay (longitude 118 degrees 34 minutes east and latitude 24 degrees 31 minutes north) which lie along the seacoast and within the territorial waters of China shall be temporarily closed and at the same time the port of Foochow shall be closed.

"The Ministry of Foreign Affairs requests the Embassy to take due note of this matter and to transmit this information to the American Government and to notify American shipping companies to observe these regulations."

⁶⁵ Not printed.⁶⁶ See Cantel No. 638, June 23, p. 1103.

Sent Department, repeated Shanghai 569, Nanking 656, Taipei 146, London unnumbered, pouched Hong Kong.

STRONG

893.801/9-449 : Telegram

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

CANTON, September 4, 1949—noon.

[Received September 4—1:29 a. m.]

Cantel 1070. American Mail Line local agents state wishes *Washington* mail enter Tsingtao. Vessel due Hong Kong about September 6.

US AstALUSNA⁶⁷ here states ComNavWesPac⁶⁸ in past has opposed efforts US vessels enter closed ports on grounds of serious hazard. He stated national blockade of Tsingtao was undoubtedly effective. Mail line desires information whether American vessels have called at Tsingtao since port was closed and if so desire know whether without incident.

Embassy does not have this information and, in view possibly somewhat divergent views between Navy Department and State Department on attitude towards closure, request Department instruct method and content reply to company.

STRONG

893.801/9-749 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 7, 1949—1 p. m.

[Received September 7—3:26 a. m.]

3683. Mytel 3498, August 27. *Flying Independent* still scheduled for Shanghai but arrival date Shanghai now about September 14. Pattison Co. state also expect bring in *Flying Clipper* after call at Taku Bar. *Clipper* due Taku about September 13 and Shanghai 16. ConGen informed by one of Shanghai pilots Nationalist patrol vessel off mouth Yangtze has moved into territorial waters, being stationed directly in channel. Difficult see how Pattison ships can pass in without interference and Pattison personally offers no reason for believing they can. ConGen has offered Pattison no advice but keeping touch re proposed calls.

Sent Department; repeated Nanking 1928, OffEmb Canton 1085.

McCONAUGHY

⁶⁷ Assistant Naval Attaché in China.

⁶⁸ Commander, U.S. Naval Forces in Western Pacific (Badger).

893.801/9-449 : Telegram

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

WASHINGTON, September 12, 1949—8 p. m.

TelCan 667. Re Cantel 1070, Sept 4. Has been reported to Dept that vessels various flags, including Chinese, Panamanian, Brit, Nor, and at least one US have entered Tsingtao in recent weeks without molestation.

View US attitude re Nats "closure" China ports, Dept and Maritime Comm have carefully avoided making statements to US shipping interests which could be construed as warnings against movements into ports Nats contend are closed. At same time all warnings issued by Nats and, in substance, reports of RCN interference with foreign shipping, have been published or brought to attn shipping cos. (As examples reports Emb's attn invited Shanghai's 2686, July 11 to Dept, rptd Canton 870; urtel 785, July 20; ⁶⁹ Navy tel CNO (DNI) 121932Z, passed Canton; ⁷⁰ Shanghai's 3498, Aug. 27 to Dept, rptd Hong Kong 212.) In pointing out danger inherent to ship movements into "closed" ports, it has been made clear at all times that decision to enter such ports rests entirely with shipping cos and that info supplied only for purpose of enabling cos formulate best decision.

Foregoing may be used in replying Amer Mail Line inquiry.

ACHESON

393.115/9-1449 : Telegram

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

WASHINGTON, September 16, 1949—8 p. m.

939. Fol tel, Sep 14, 1949 to Sec State from Isbrandtsen Co., Inc. NY quoted ur info:

"We are dispatching our steamer *Flying Independent* of American registry from Hong Kong 15th of Sep with cargo for Shanghai, Taku Bar and Japan as part of regular schedule of our steamers in the Far Eastern trade. Master has been instructed to accept lawful commercial merchandise only. Vessel holds permit from Shanghai and Taku Bar authorities to enter. In view confusing report interference at river's entrance by vessels of uncertain status we request that a naval escort be provided from our fleet there. We have sent this telegram simultaneously to the Chief of Naval Operations. Please give the needful instructions to our Master care Pattison [at] Hong Kong [and] have already requested Master confer with Admiral Badger [at] Hong Kong. We are requesting this protection in accordance with the position you have already taken that our Govt does not recognize ineffectual interference or blockade of Chinese ports."

⁶⁹ Neither printed.

⁷⁰ Latter not found in Department of State files.

Fol is Dept's reply to Isbrandtsen Co., Sep 16, 1949:

"Reurtel dated Sep 14, 1949 concerning the intentions of ur co to dispatch vessel *Flying Independent* into Shanghai. As you are already aware the United States Govt does not recognize the Chinese Nationalist Govt's purported blockade of Chinese ports. The Dept of State has, however, attempted to make available to US shipping cos, ship operators, and masters all reports indicating the nature and extent of interference with foreign shipping by the Chinese Navy. The Dept's purpose in supplying this info is and has been to enable shipping companies and masters to formulate the best decisions. The Dept wishes to make clear that it considers the decision to move vessels into Chinese ports to rest entirely with the shipping cos and masters.

It is not the policy of this Govt to convoy commercial shipping into Shanghai or other Chinese ports. In consequence, you are advised that no naval escort will be provided for the projected movement of the *Flying Independent* into Shanghai. The Dept of Navy concurs."

ACHESON

393.115/9-1849: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 18, 1949.

[Received September 18—5:01 a. m.]

3911. SS *Flying Clipper* from Taku Bar arrived Shanghai September 18, made fast Hongkew-Shanghai wharf 1345 hours. *Flying Independent* from Hong Kong made fast same wharf 1435 hours. Previous message from master to agent stated *Independent* stopped by Chinese naval craft at mouth Yangtze 1630 local time then given permission proceed. *Clipper* arrived shortly after and proceeded up Yangtze passing *Independent* en route. *Clipper* apparently cleared also by Chinese naval vessel but no wireless report from master received.

These first American vessels arrive Shanghai since port closure June 25. Great local interest.

Repeated CNO for information. Please pass VOANY.⁷¹

McCONAUGHY

123 McGinnis, Joseph William: Telegram

The Acting Secretary of State to the Consul at Shanghai
(McConaughy)

WASHINGTON, September 20, 1949—7 p. m.

1929. Reurtel 3942 Sept 20⁷² no official Amer personnel including McGinnis shld be embarked on *Flying Clipper* or other ships which

⁷¹ Voice of America, New York.

⁷² Not printed; it requested guidance as to whether Foreign Service Staff Officer Joseph W. McGinnis, being transferred to Bombay, should proceed aboard the *Flying Clipper* through the Chinese blockade.

have not obtained Natlist clearance. You shd discreetly inform members of Amer community who contemplate leaving Shanghai on any ship which has not clearance by Natlists and Commies that they will be passing thru what is in effect zone of hostilities and that they wld thus undergo definite risk.

Dept informed that Isbrandtsen *Flying Trader* is due enter Shanghai in 24 hours.

WEBB

393.1115/9-2149: Telegram

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

CANTON, September 21, 1949—1 p. m.

[Received September 21—6:38 a. m.]

Cantel 1134. Chen Tai-chu, Director American Section Foreign Office, stated September 20 that at 6 a. m., September 18, two US merchant ships, *Flying Clipper* and *Flying Independent* of Isbrandtsen Line were intercepted by Chinese naval vessel at entrance Yangtze River (were on Chinese territorial waters), that by signals the two ships' captains alleged American and Chinese Government had agreed both ships proceed Shanghai to evacuate US nationals. Satisfied re these allegations, Chinese naval vessel escorted vessels into Yangtze.

Chen was assured categorically that Embassy had no knowledge of any such agreement alleged by these ships.

Chen then requested Embassy instruct ConGen Shanghai inform captains *Flying Clipper* and *Flying Independent* that, as their entry into Shanghai involved "bad faith" on their part, ships must load no cargo or passengers at Shanghai; that if the ships do not load cargo or passengers they will be given clearance from Shanghai. However, because of their "bad faith" they will not be permitted future entry into Chinese ports; that if ships do not comply with foregoing orders company must accept responsibility for anything that happens to ships. Chen expressed hope US Government will cooperate in this matter in order not to prejudice future clearances of such ships as *Gordon*.⁷³

Inasmuch as ships entered Shanghai September 18, Chen considers matter of greatest urgency and asked Embassy telephone Hong Kong agents to pass warning to ship captains in Shanghai. Says Chinese Navy plans intercept these ships upon egress from Yangtze and take "appropriate action". He observed that if US nationals took passage on these ships outward from Shanghai issue would be much more complicated.

Foregoing based on Rinden's⁷⁴ conversation. Foreign Office telephoned ConGen Hong Kong forenoon September 20, requesting Em-

⁷³ For correspondence regarding the S.S. *General Gordon*, see pp. 1261 ff.

⁷⁴ Robert W. Rinden, appointed Consul to Batavia, on temporary detail to the Embassy office in China.

bassy officer proceed at once to Canton. Rinden already there to discuss *Gordon* trip.

Rinden returning Canton today. Have instructed him state:

(1) Surprise that Foreign Office would express suspicion Embassy connivance as indicated by Chen's questioning;

(2) Masters of two ships undoubtedly would state different case when their side heard;

(3) Embassy would inform Department and ConGens Shanghai and Hong Kong in premises;

(4) View nonrecognition of "closure" by US Government, ConGen unable "instruct" Shanghai;

(5) Any measures to be taken must be decided by Department;

(6) Embassy has no jurisdiction Hong Kong on such matters which must be left discretion ConGen there.

Nationalist Government obviously upset by entry of two large ships into Shanghai particularly view fact sailings public knowledge long before. Prevailing opinion is that either KAT [*NAT?*] patrol vessel which stopped them immediately thereafter defected, or bribed [garble] when ships intercepted or beforehand.

Sent Department; repeated Shanghai 542, by hand Hong Kong.

STRONG

393.115/9-2149: Telegram

The Acting Secretary of State to the Consul at Shanghai
(*McConaughy*)

WASHINGTON, September 21, 1949—3 p. m.

1940. Urgently request full report all facts bearing on allegations made by Chinese Foreign Office stated Cantel 1134, Sep 21 to Dept, rptd Shanghai 542. Include all pertinent entries both vessels logs and other info which masters can supply. Make available immed and without comment to Isbrandtsen's reps Hong Kong and Shanghai statements made by Chen reftel. Action latter Hong Kong and Shanghai respectively.

WEBB

393.115/9-2249: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 22, 1949—6 p. m.

[Received September 22—7: 44 a. m.]

3994. Deptel 1940, September 21, allegations Chinese Foreign Office against masters [of] *Flying Independent* and *Flying Clipper*. Henry Scurr, Master *Flying Independent*, and John F. Doyle, Master *Flying*

Clipper, executed affidavits this Consulate General today covering incident with Nationalist naval vessel at entrance Yangtze River. Scurr's affidavit summarized as follows:

At 0805 hours September 18 near Tungsha bank buoy observed Chinese DE[stroyer] athwart his course. He complied with signal to anchor immediately. During exchange of signals by blinker lamp *Flying Independent* in reply to question stated it was from New York and Hong Kong with mail for American Consulate and wished proceed Shanghai bring out Americans. DE said a liner was to bring out Americans, then asked name of accompanying sister ship. Scurr replied "*Flying Clipper*", then asked permission proceed on this tide Shanghai. DE at 0905 gave permission proceed.

Scurr states he instructed his signal officer inform DE his ship was also to discharge commercial cargo Shanghai but record of blinker signals in log book does not indicate this message sent.

Scurr denies flatly he was escorted into Yangtze by DE. Also denies he made any reference to any agreement between American and Chinese Government[s] whereby his ship was to proceed Shanghai to evacuate US nationals.

Affidavit of Doyle sets forth *Flying Clipper* passed Chinese naval vessel anchored in channel near Yangtze light vessel at 0816 hours September 18. Says he exchanged no messages with naval vessel. He passed 150 yards astern naval vessel and proceeded Shanghai without escort and without interference.

Consulate General has examined log books both vessels which corroborate affidavits of masters.

Consulate General comments: Assuming Scurr's reported intention mention discharge commercial cargo at Shanghai was not signaled by junior officer *Flying Independent*, reply of *Flying Independent* to DE query did not reflect whole truth and was somewhat misleading. It is true ship did have tentative bookings for few American passengers out Shanghai and that ship brought mail for American Consulate General. Lines of ship and her heavy draft however must have indicated clearly to Captain of Chinese naval vessels he was fully loaded with freight and not a passenger ship suitable for evacuation purposes.

Wide advance publicity scheduled call ships at Shanghai seems to discredit Foreign Office charge of bad faith.

Consulate General has informed Isbrandtsen Far Eastern representatives and local agents substance of Foreign Office charges and warning. Representative particularly requests Department to inform Isbrandtsen fully.

Sent Department, repeated EmbOff Canton 1126.

McCONAUGHY

393.115/9-2449

The Acting Secretary of State to the Chargé in China (Strong)

WASHINGTON, September 24, 1949—1 p. m.

TelCan 702. Pls most urgently transmit to the FonOff, after referring to your conversation with Director Amer Section FonOff reported Cantel 1134, Sep 21, a note containing fol statements:

“U.S. Government has investigated the circumstances surrounding the entry into the port of Shanghai of the *Flying Independent* and the *Flying Clipper*, American flag ships, the former of which was intercepted by a Chinese naval vessel at the entrance of the Yangtze river, Sep 18, 1949 and desires to clarify the facts in order that no untoward incident might later result. U.S. Government desires to point out at the outset that information in its possession, in addition to that obtained from the logs of the vessels concerned, and from affidavits by the masters of the vessels, is of such a character that it is not open to be controverted by the Chinese Government.

The affidavit by the Master of the *Flying Independent* states that he complied immediately with the Chinese naval vessel's signal to anchor and in the course of an exchange of signals which followed, the Master informed the naval vessel that the *Flying Independent* carried mail for the American Consulate and wished to proceed Shanghai to bring out Americans. After an hour's delay the Chinese naval vessel signalled permission to proceed. The affidavit by the Master of the *Flying Independent* denies that he made any reference to any agreement between the U.S. and Chinese Governments whereby his ship was to proceed to Shanghai to evacuate U.S. nationals and further denies that he was escorted into the Yangtze river by the Chinese naval vessel. The affidavit by the Master of the *Flying Clipper* states that he exchanged no messages with the Chinese naval vessel; that he passed 150 yards astern of the naval vessel and proceeded into Shanghai without escort or interference. The U.S. Consulate General at Shanghai has examined log books of both vessels which corroborate affidavits by the masters. The U.S. Consulate General has also reported as being true the statements that the ship had tentative bookings for American passengers and that the ship brought mail for the American Consulate General.

On the basis of the affidavits executed by the vessels' masters, the advance publicity given to the call of the vessels at Shanghai, and other supporting facts, the U.S. Government is of the opinion that the Chinese Government has lacked full knowledge of the facts relating to this matter.”⁷⁵

WEBB

⁷⁵ The Department in its telegram telCan No. 703, September 27, 2 p. m., instructed the Chargé to “transmit to FonOff additional oral message from this Govt in re *Flying Independent* and the *Flying Clipper* to effect that US Govt stands by position taken in Embs note of June 28, 1949 to Chinese Govt” (see telegram telCan No. 384, June 24, p. 1104.

393.115/9-2949 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 29, 1949.

[Received September 29—5 : 43 a. m.]

4116. Master SS *Flying Trader* inward bound radioed September 29 at 1315 hours to A. P. Pattison, Shanghai agents, vessel intercepted by Chinese naval craft off Yangtze entrance and requested to anchor.

A series of 8 messages from 1400 to 1605 hours from *Flying Independent* outward bound and accompanied by *Flying Clipper* state that both ships intercepted by Chinese Nationalist warships, one of which ex-US DE, other ex-minesweeper; vessels ordered to stop and anchor. Two of messages to *Independent* from DE, one by blinker and one by voice loud speaker, said to anchor immediately or they would fire. *Independent* requested permission proceed with Korean refugees but was refused. All 3 ships now anchored Tungsha bank buoy guarded by 2 Chinese warships. Last message from *Independent* at 1605 stated warships again denied permission proceed and advised officers from Chinese warships would board and inspect ships. No message from *Clipper*. Andrew Crinkley, Isbrandtsen Far East representative, aboard *Independent*.

Please inform Isbrandtsen, New York.

Sent Department, repeated Hong Kong 285, Canton 1138, Taipei 323.

McCONAUGHY

893.801/9-2949 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Douglas)

WASHINGTON, September 29, 1949—1 p. m.

3545. At request Dept, Brit Emb last week requested FonOff to tele copy Brit protest re Chi Nat Govt seizure SS *Edith Moller* ex-Shanghai. Nats have now intercepted three Amer-flag Isbrandtsen ships outside Shanghai. In view desirability knowing Brit line of action, pls indicate FonOff urgency our interest this question.

WEBB

393.115/9-2949 : Telegram

The Acting Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 29, 1949—8 p. m.

2003. Reurtel 4116, Sep 29. Pls keep Dept informed all available details Isbrandtsen vessels, particularly geographical coordinates ves-

sels positions vicinity Tungsha buoy and any reported movements from that area.

WEBB

893.115/9-3049 : Telegram

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

CANTON, September 30, 1949—9 a. m.

[Received October 1—6:38 a. m.]

Cantel 1153. Reference telCan 703, September 27.⁷⁶ Oral message transmitted to Foreign Office September 30 as instructed by Department. Foreign Office stated they much aware our position but still stood by their own.

Foreign Office at same time advised that Chinese naval vessel intercepted *Flying Trader* before entered Yangtze en route from Hong Kong and persuaded it to change course and not attempt reach Shanghai.

Also stated Chinese naval vessel intercepted both *Flying Independent* and *Flying Clipper*, exiting Yangtze from Shanghai. Claims Foreign Office has no details as yet on whether these vessels loaded cargo and passengers Shanghai or disposition of vessels by Chinese Navy; also no information whether ships intercepted in territorial waters or on high seas.

STRONG

893.801/9-3049 : Telegram

The Chargé in the United Kingdom (Holmes) to the Secretary of State

LONDON, September 30, 1949—11 a. m.

[Received September 30—5:50 a. m.]

3925. Deptel 3545, September 29. According FonOff, British Embassy, Washington, did ask for text British protest re *Edith Moller* but did not mention use of telegraph. Had planned forward text by pouch but view urgency will telegraph this morning priority basis. Comments document may not be too helpful as it is "indignant" rather than "legal" in tone. Declined Embassy offer cable text.

HOLMES

893.115/9-3049 : Telegram

The Acting Secretary of State to the Chargé in China (Strong)

WASHINGTON, September 30, 1949—4 p. m.

TelCan 708. Pls transmit most urgently to FonOff a note containing fol:

⁷⁶ See footnote 75, p. 1138.

"My Govt has been informed, through its Consulate Gen at Shanghai that on Sep 29 two Amer flag vessels, SS *Flying Independent* and SS *Flying Clipper*, while proceeding on an outbound passage from Shanghai, were intercepted by two Chi Naval craft and were instructed to anchor at the mouth of the Yangtze river. It has been reported further that the *Flying Trader* on inbound passage for Shanghai, was similarly instructed. It is understood that the three Amer vessels have been informed by the Chi Naval vessel that this action was in accord with orders of the Chi Govt.

Assuming the foregoing info to be accurate my Govt desires urgently to know the basis of the Chi Govt's action in intercepting and detaining the three Amer vessels concerned, their exact positions, and the intentions of the Chi Govt with respect to effecting an early release of the vessels."

WEBB

393.115/10-149

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] October 1, 1949.

CHINA BLOCKADE

The President brought up of his own initiative the question of the handling of the Isbrandtsen Line vessels by the Nationalist Government, and indicated strongly, as he has previously indicated, that he wished the blockade to be effective and that he desired the Department to do nothing to be of assistance to these vessels. I informed him this was the position we were taking, with the exception that we were warning the Nationalist Government not to bomb vessels from the air when they carried American citizens. The President stressed again the fact that his policy was to permit the blockade to work effectively, to which policy he expected strict adherence.

JAMES E. WEBB

393.115/10-149 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, October 1 [29], 1949.

[Received October 2—12: 17 a. m.]

4151. Following message received by Pattison October 2 at 1045 hrs. local time from *Flying Independent*:

"Chinese warship orders we follow him to 30-14 north, 121-55 east. Advise New York and all authorities."

Message from *Flying Clipper* 1100 hrs :

"Message just received from Chinese warship

'Follow us to latitude 30-14 north, longitude 121-55 east. You must proceed to follow orders by my Government. If not, will fire on you.'

Notify immediately American Consulate General, State Department and New York."

Please pass CNO.

Sent Department 4151; repeated Embassy Canton 1143, Hong Kong 290, Taipei 333.

McCONAUGHY

393.115/10-349: Telegram

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

CANTON, October 3, 1949—4 p. m.

[Received October 5—12: 40 p. m.]

Cantel 1158. TelCan 702, repeated Shanghai 1978, Hong Kong 982, September 24, 1 p. m. Note passed Foreign Office September 26 as instructed.

Foreign Office on September 26 stated further enquiry from Chinese Navy Headquarters elicited information that one of Isbrandtsen ships in question stated specifically that the two ships were entering Shanghai in place of *General Gordon*. Foreign Office representative then inquired as to certification of affidavit by Consulate General, Shanghai. I stated Consulate General only witnessed signature and oath of masters but that according to our note Consulate General did separately confirm certain statements made by the masters.

I pointed out that Chinese naval vessel may well have garbled message and placed wrong interpretation on it. Foreign Office representative closed conversation with statement that notification to the vessels of its warning was the essential thing. I reiterated that the substance of the earlier statement by Foreign Office had been made known without comment to ships' agents Hong Kong and Shanghai.

Sent Department 1158, repeated Hong Kong unnumbered.

Department pass Shanghai 553.

STRONG

393.115/10-449: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, October 4, 1949.

[Received October 3—11: 53 p. m.]

4156. SS *Flying Trader* arrived Shanghai; made fast Shanghai-Hongkew wharf 1630 hours local time October 3. Master informed Pattison, Isbrandtsen agent, that while anchored outside he had received all wireless messages on the air concerning *Flying Independent* and *Clipper*, knew those ships had gone southward under guard and

decided that while Chinese warships were escorting 2 other Isbrandtsen ships time was appropriate to proceed Shanghai in accordance owners' instructions. In order not attract attention he withheld sending Shanghai agent ETA ⁷⁷ by radio until he was well up Yangtze towards Wosung. Cargo aboard for Shanghai about 3000 tons.

Sent Department, repeated Canton 1146, Hong Kong 293, Taipei 336.

McCONAUGHY

195.91/10-449 : Telegram

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

CANTON, October 4, 1949—5 p. m.

[Received October 5—7:03 a. m.]

Cantel 1161. This telegram written October 1 (received Hong Kong October 4). Chief American Section Foreign Office October 1 stated *Flying Independent* and *Flying Clipper* intercepted. Detained in territorial waters September 29. Masters were offered opportunity return Shanghai and discharge cargo and passengers but refused; were then told would have to jettison cargo to which they agreed; masters requested certificate from Chinese naval vessel regarding fact cargo jettisoned.

Foreign Office instructed Chinese Navy sign such certificate which to include signed statements by masters that they refused return Shanghai to discharge and that they had received Nationalist warning not to load cargo or passengers in view of "bad faith".

In response to questions, he stated Chinese Government did not feel entitled take possession of cargoes, vessels still allowed use radios and Foreign Office directing Chinese Navy in all details regarding detention and treatment of vessels.

Flying Trader not detained but diverted from purpose of reaching Shanghai. Apparently has not again attempted enter Yangtze.

Sent Department Cantel 1161; repeated Shanghai 554, Taipei 182, Hong Kong by hand; Department pass Shanghai; Taipei.

STRONG

393.115/10-449 : Telegram

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

CANTON, October 4, 1949—5 p. m.

[Received October 5—4:53 a. m.]

Cantel 1162. Reference telCan 708 ⁷⁸ (received Canton October 3) and Cantel 1161, October 4, 5 p. m., repeated Shanghai 554, Taipei 182,

⁷⁷ Estimated time of arrival.

⁷⁸ September 30, p. 1140.

Hong Kong unnumbered. Note presented Foreign Office October 3. In addition information given Embassy October 1 Foreign Office states *Flying Independent* and *Flying Clipper* were moved probably October 2 from mouth of Yangtze to Tinghai because of rough weather. Three overseas Chinese passengers with Chinese passports plus over 100 Koreans aboard and Foreign Office expects permit all to proceed destinations. No foreign passengers known to Foreign Office to be aboard. Foreign Office does not know whether jettison of cargoes commenced mouth of Yangtze. Removal of vessels to Tinghai creates new situation under which new determination must be made for disposition of cargoes.

Requested urgent reply October 3 verbal if necessary to be confirmed in writing. Do not expect reply in time to send with Embassy courier October 3 on his return trip to Hong Kong.

STRONG

393.115/10-749 : Telegram

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

SHANGHAI, October 7, 1949.

[Received October 7—4: 11 a. m.]

4211. Message from *Flying Independent* dated October 7 at 1115 hours local time stated vessel proceeding Fusan⁷⁹ with official permission. Departure was cordial. ETA Fusan October 9 at 0500 hours. No advice from *Flying Clipper*.

Sent Department 4211, repeated OffEmb Canton 1149, Hong Kong 299, Taipei 342.

MCCONAUGHY

393.115/10-749 : Telegram

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

SHANGHAI, October 7, 1949.

[Received October 7—4: 41 a. m.]

4217. Message from SS *Flying Clipper* to Pattison, Shanghai agents Isbrandtsen Company, stated ship released October 7 at 1200 hours local time and was bound for Hong Kong.

Sent Department 4217, repeated Canton 1150, Hong Kong 302, Taipei 343, CNO.

MCCONAUGHY

⁷⁹ Pusan, Korea.

393.115/10-749 : Telegram

The Acting Secretary to the Consul General at Shanghai
(McConaughy)

WASHINGTON, October 7, 1949—3 p. m.

2051. Urtels 4211, 4217, October 7. Urgently request all facts concerning release Isbrandtsen vessels and what conditions if any were imposed by Chi Gov. Does *Flying Trader* contemplate loading cargo and passengers outbound passage Shanghai?

WEBB

393.115/10-749 : Telegram

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

HONG KONG, October 7, 1949—6 p. m.

[Received October 11—12:15 a. m.]

Cantel 1175. Reference telCan 708, September 30. Following verbal statement by Chief of Foreign Office American Section assisted by civilian liaison between Foreign Office on Chinese Navy was made to Embassy October 3; *aide-mémoire* in almost identical terms will be handed Embassy when completed:

“(1) *Flying Trader* on inbound passage to Shanghai was intercepted by Chinese Navy and advised not to proceed to Shanghai on grounds of Nationalist Government closure order and after being intercepted changed course of navigation.

“(2) *Flying Independent* and *Flying Clipper* on outward passage from Shanghai were intercepted by Chinese Navy on following grounds:

“(a) Enforcement of closure order;

“(b) Since vessels entered Shanghai on bad faith, alleging that an agreement had been reached between Chinese and US Governments for these vessels to replace *General Gordon* for evacuation Americans, they were informed by Chinese Government through American Embassy prior to departure from Shanghai that vessels would be allowed leave Shanghai provided they carried neither passengers nor cargoes and that otherwise they would have to be responsible for any eventuality;

“(c) Vessels on leaving Shanghai carried both passengers and cargoes and refused return Shanghai unload cargoes as requested by Chinese Navy.

“(3) All three vessels were intercepted at very mouth of Yangtze River.

“(4) Owing to rough seas, masters requested on October 1 to be allowed move to safer area. They were permitted same day proceed to Chusan and are now in safe anchorage at Chingtau Island.

“(5) Chinese Government will release both vessels with passengers on board as a favor as soon as they comply with either of following conditions:

- “(a) Return to Shanghai to unload cargoes and accepting no new passengers; or
 [“(b) Cargoes on board are disposed of (by jettison).”]

Reference previous Cantels today, Foreign Office states masters now refuse sign any document although they initiated request for one connection jettisoning and refuse comply with Nationalist conditions; Chinese Navy thinks Chingtau not safe enough and suggests ships be moved elsewhere but masters not agree; Chinese Government still willing sign document but it must include statements that vessels refused return Shanghai to discharge cargoes, and that vessels were informed prior departure not to load these cargoes on board [*which?*] were necessarily disposed of; Chinese Navy headquarters Tinghai on own responsibility after interception released vessels to enter Shanghai.

I remarked that US Government does not recognize “closure” order, that US Government after full investigation had knowledge that vessels did not purport to be replacing *Gordon* or refer to agreement between Chinese and US Governments, and that it seemed peculiar that Chinese Navy would release vessels to enter Shanghai without referring to Chinese Government at Canton.

On latter point Foreign Office representatives declared Navy no doubt thought Chinese Government clearance was delayed, that in case of *Gordon*, Navy received clearance only 12 hours before ship reached Yangtze mouth; also said Chinese Navy had most friendly feeling toward US Navy and relying on that sentiment in releasing ships on faith.

Sent Department Cantel 1175; repeated Shanghai 559; Taipei 190, by hand Hong Kong.

STRONG

393.115/10-849 : Telegram

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

SHANGHAI, October 8, 1949—11 a. m.

[Received October 8—1:31 a. m.]

4219. Urtel 2051, October 7. Masters of *Independent* and *Clipper* provided no details of their release beyond that contained our telegrams. Suggest Consul General [at] Hong Kong interview master *Clipper* and cable Department direct. *Clipper* ETA Hong Kong October 9, *Independent* presumably now Pusan. Suggest Embassy [in] Seoul obtain information from master through ships' agents A. P. Pattison and Company, Pusan, Korea.

Flying Trader now booking export cargo from Shanghai. Isbrandtsen informed Pattison and Company, Shanghai agents, they had booked 6,800 drums wood oil, 1,850 cases tea, 45 bales silk for Vladivostok. Also advised insurance covering ship and cargo was available and insurance for possible detention of ships by Nationalist Navy. Other cargo 1,500 tons soya beans for Japan and about 1,500 tons general for New York. *Trader's* expected schedule is Taku Bar (not definite), Pusan, Vladivostok, Kobe, Yokohama, Los Angeles, New York.

Flying Cloud, due Hong Kong shortly, expected load that port about 6,000 tons cargo for Shanghai.

Sent Department 4219; repeated Canton 1151, Hong Kong 303, Seoul 47. McCONAUGHY

841.85/10-1049

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 10, 1949. //

BRITISH NAVAL CONVOY AT SHANGHAI

The President handed me the attached cable⁸⁰ to the Chief of Naval Operations. The President noted the last sentence which reported that "reliable advice from Hongkong was to the effect that the Royal Navy would escort any British vessels bound for Shanghai and the territorial waters in the mouth of the Yangtze."

The President expressed his surprise and felt that this was, if true, a most undesirable development. I told the President that I doubted the truth of the report since Bevin⁸¹ had agreed that we would keep in close touch with one another in regard to our actions in China. However, I said that I would inquire about it and make a report to the President.

FE should follow up and prepare a memorandum to the President from me.⁸² D[EAN] A[CHESON]

393.115/10-1249: Telegram

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

HONG KONG, October 12, 1949—1 p. m.

[Received October 12—12: 24 p. m.]

Cantel 1202. On October 10, Embassy informally inquired Foreign Office representative regarding earlier release of *Flying Clipper* and

⁸⁰ Not printed; it was a telegram from the Isbrandtsen Co., Inc., New York.

⁸¹ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁸² See memorandum of conversation with President Truman on October 13, p. 1148.

Flying Independent by Chinese Navy. Representative stated release on grounds of "expediency", that Foreign Office was disturbed by tone of telegrams from Chinese Mission[s in] Seoul and Washington. However, he declares Chinese Navy will intercept *Flying Trader* outward from Shanghai.

Embassy on October 8 had discussed these vessels briefly with Chen Tai-chu, Foreign Office American Department Chief, but he made no mention of their release. On October 10 Chen claimed had only telephonic information regarding their release and did not wish to inform Embassy until it official. We believe Chinese Navy may have released vessels without Foreign Office action.

Sent Department Cantel 1202, repeated Shanghai 566, Taipei 201, by hand Hong Kong unnumbered.

STRONG

393.115/10-1249 : Telegram

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

SHANGHAI, October 12, 1949—4 p. m.

[Received October 12—5 : 23 a. m.]

4294. ReConGentel 4219, October 8. Isbrandtsen SS *Flying Trader* etd⁸³ from Shanghai October 15. Department will recall this ship eluded Nationalist warships, entering port while warships absent escorting *Flying Independent* and *Clipper* to Chusan area. Department may wish call attention Nationalist Government imminent departure this vessel in order that incident may be avoided.

Sent Department; repeated Embassy Canton 1155, Hong Kong 309.

McCONAUGHY

841.85/10-1349

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 13, 1949.

12 : 30 Meeting with the President

I reported to the President that to the best of our information and that of the British Embassy in Washington the British were not conveying or escorting vessels into and out of Shanghai. I understood that they had a naval vessel off the mouth of the Yangtze, instructions of which were to aid British vessels if attacked, and that so far I knew of no case where one had been attacked. As soon as the Embassy re-

⁸³ Estimated time of departure.

ceived the message from London getting specific information on this matter, the President would be informed of it.

[DEAN ACHESON]

393.115/10-1549 : Telegram

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

SHANGHAI, October 15, 1949—4 p. m.

[Received October 15—5:42 a. m.]

4352. SS *Flying Trader* sailed from Shanghai October 15 at 15405 for Taku Bar. Master's orders from Isbrandtsen, New York, to answer no signal from Chinese warships and continue course unless a shot fired across bow.

Sent Department, repeated Hong Kong 314, Taipei 377.

McCONAUGHY

393.115/10-1549 : Telegram

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

SHANGHAI, October 15, 1940.

[Received October 15—6:51 p. m.]

Unnumbered. Following message received from master SS *Flying Trader* 2220 hours October 15 local time to A. P. Pattison and Company, Shanghai agents, Isbrandtsen:

"Fired at and stopped by Chinese warship on Kiutoan Spit buoy. Now anchored awaiting further orders."

Sent Department; repeated Chungking, Hong Kong, Taipei.

McCONAUGHY

393.115/10-1649 : Telegram

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

SHANGHAI, October 16, 1949.

[Received October 15—11:58 p. m.]

4353. Further ConGen unnumbered telegram October 16 [15?]. Radio message from Master [of] Isbrandtsen SS *Flying Trader* just received by local agent and indicates ship released at 0920 local time and is proceeding Taku Bar. ConGen endeavoring to ascertain details.

Sent Department 4353; repeated Embassy Chungking unnumbered, Hong Kong 315, Taipei 378.

McCONAUGHY

393.115/10-1749: Telegram

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

SHANGHAI, October 17, 1949.

[Received October 17—5:07 a. m.]

4374. Mytel 4353, October 16. On Consulate General's request, A. P. Pattison sent wireless to Master [of] *Flying Trader* asking details of firing on his ship and subsequent release by Nationalist warship. Message from Master just received states:

"When passing Kiutoan buoy, was ordered by blinker from Chinese warship to stop but continued full speed, ignoring his signals, whereupon he fired tracer passing between our fore and mainmasts. At request, anchored. He anchored close by, requesting us to remain, awaiting orders from his Government. At 0735 hrs next day (October 16), warship signal us to go on our way and left us."

For information Department, Kiutoan Spit buoy located E. longitude 121-58-36, N. latitude 31-7-36 in Yangtze estuary.

Sent Department 4374; repeated Chungking 1157, Taipei 383, Hong Kong 320.

McCONAUGHY

841.85/10-1849

*Memorandum by the Secretary of State to President Truman*⁸⁴

Subject: British Naval Convoy at Shanghai

Reference is made to our conversations of October 10 and 13 with respect to the report that the British Navy was prepared to escort British vessels "bound for Shanghai and the territorial waters in the mouth of the Yangtze".

In response to our inquiry a reply has now been received from the British Foreign Office, and a summary of the instructions which have been issued to the British Navy in this regard is attached for your information.

It will be noted that, in general, the British Navy is prepared to extend full protection to British Merchant vessels as long as they are

⁸⁴ Memorandum drafted October 18-19 and handed by the Secretary of State to President Truman on October 20.

outside the territorial waters of China, but that protection will be extended to British merchant vessels within the territorial waters of China only in the event of an actual attack or bombing and then only if the ships are not "in confined waters which are Communist dominated".

The British Embassy has informed the Department that no indication has been received from the Foreign Office with respect to the date that these instructions were put into effect but that a further inquiry in this regard has been sent to London. It would appear unlikely, however, that there has been any convoying on a large scale in view of the fact that only two British flag vessels are known to have entered Shanghai since the port closure order without clearance from National Government authorities, the *Edith S. Moller* and the *Leong Bee*, both of which were detained for extended periods on their departure by the Chinese Navy.

This Department is presently engaged in studying the international law aspects of the British Government's willingness to convoy merchant vessels in the area of China and is also analyzing the possible effects of this action on our position vis-à-vis U.S. commercial shipping in that area and on our general policy toward China. I will expect to communicate with you further in this regard when our study is completed.

[Annex]

The British Embassy to the Department of State

SUMMARY OF INSTRUCTIONS TO BRITISH NAVY

(A) Merchant ships will be entitled to Naval protection in full on the high seas up to the limit of territorial waters (3 miles) i.e. including Tungsha Banks buoy and Kiutoan Spit buoy but not westward of the latter. But for this purpose the shipowners must, in their turn, both arrange a clear communication system with His Majesty's ships and also make their courses and rendezvous as arranged. There can be no guarantee of protection if ships fail to make their signals effectively received or to turn up at the rendezvous at the time agreed.

(B) Once having entered territorial waters they would not be escorted by His Majesty's ships. Ships would only enter to protect them if they had actually been attacked or bombed except that in no circumstances will His Majesty's ships enter to protect them in confined waters which are Communist dominated.

(C) If they are arrested in territorial waters and turned back they will have to go back. Once on the open seas again however they are

free. If a Nationalist warship therefore continues with the Merchant ship on the high seas and either detains her or forces her to go back to a Nationalist base etc. then again His Majesty's ship will assume the duty of protection against this. But here again the presence of His Majesty's ship on the spot at the relevant time cannot necessarily be guaranteed.

393.115/10-2049 : Telegram

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

WASHINGTON, October 20, 1949—7 p. m.

2135. Fol tel sent Isbrandtsen Co, NY, Oct 14 quoted ur info :

“Reference is made to your several recent calls to the Dept and to your tels October 10 and 12,⁸⁵ in the latter of which you ask certain questions concerning the measures which this Govt is prepared to take in the event that the vessel *Flying Trader* of the Isbrandtsen Co. encounters interference in its outward voyage from Shanghai. It is now understood that the *Flying Trader* intends to depart on October 15.

As previously announced, and as you have been repeatedly informed, it is not the policy of this Govt to convoy Amer merchant vessels in order that they may continue to trade with Chinese ports which are included in the Chinese Natl Govt's closure order. Any decision by the Brit Govt in respect to convoying Brit merchant vessels engaged in trade in this area is, of course, one for that Govt to make. For your info the Dept has received no corroborative information that Brit merchant vessels are in fact being convoyed. I shld like to make it clear, however, that any such action on the part of the Brit Govt wld in no way obligate this Govt to do likewise.

Further, as previously announced and as you have been informed on a number of occasions, any decision regarding the operations of Amer flag vessels into ports controlled by the Chinese Communists is properly one for the shipping cos, operators and the masters themselves to make in the light of the circumstances.

The statement which you attribute to the Under Sec of State in his press conference of October 5 is grossly inaccurate. When asked ‘If the Chinese National Government fired on one of our ships that was trying to run the blockade, could there be an incident there, or would we shrug our shoulders?’, the Under Sec replied that he wld not want to predict what our course of action wld be; that it wld be a very serious matter as wld the air bombardment of any ship carrying Amer natls. In this connection, as you have been advised also, shld such a situation arise the Dept will take whatever action it may deem appropriate.”

⁸⁵ Neither printed.

Reurtel 4294, Oct 12, request you exercise utmost caution against encouraging, inadvertently or otherwise, shipping line agents and shippers re Amer shipping Shanghai.

Sent to Chungking 732, Seoul 889, and to Shanghai unnumbered.

ACHESON

393.115/10-2149: Telegram

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

CHUNGKING, October 21, 1949—5 p. m.

[Received October 21—7:21 a. m.]

Cantel 1217. Chen Tai-chu⁸⁶ today admitted Chinese Navy released *Flying Trader* as well as two other Isbrandtsen ships on own responsibility and that Foreign Office does not yet have details. Chen previously claimed Foreign Office dictated policy on detention and release (Cantel 1202, October 12).

Chen felt Navy probably had insufficient vessels for continued detention these ships view combat commitments. He referred with gratification to message he claimed received from Chinese Embassy to effect Department advised it not encouraging US flag vessels violate closure.

STRONG

841.85/10-2049

Memorandum of Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] October 21, 1949.

Mr. J. F. Ford, First Secretary of the British Embassy, called this afternoon on Mr. Sprouse⁸⁷ and myself and showed us a confidential telegram which had just been received from the Foreign Office in reply to the Embassy's request for further details with regard to the instructions which had been issued to the British Navy on the above subject. Although a copy of the telegram was not left with us, the gist was as follows:

The scale and method of naval assistance summarized in our previous telegram [see memorandum from FE to the Secretary of October 18, 1949]⁸⁸ do not go beyond that previously offered by the Royal Navy to British merchant vessels affected by the Chinese Gov-

⁸⁶ Foreign Office American Department Chief.

⁸⁷ Director of the Office of Chinese Affairs.

⁸⁸ Not printed, but see memorandum handed by the Secretary of State to President Truman on October 20, p. 1150.

ernment closure order. The spirit of our attitude has, however, been modified recently with Ministerial approval. Following the closure order, British shipping was advised that control of the entrance to the Yangtze by the Nationalists was complete and no encouragement was given to British ships to enter. The successful entrance of the three Isbrandtsen ships led to fresh inquiries from British shipping and caused a review of the previous assessment. Consequently, British shipping interests were informed on October 1 that experience had indicated that the closure of Shanghai was not in fact complete. These interests were also informed that attempts to enter Shanghai would not embarrass the British Government although ship owners would have to decide for themselves whether voyages were to be attempted.

Mr. Ford stated that the Embassy had no additional information with regard to the instructions to the British Navy and had not received any indication of the exact day on which those instructions were issued.

893.115/10-2249 : Telegram

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

SHANGHAI, October 22, 1949—11 a. m.

[Received October 22—2:43 a. m.]

4473. Suggestion made in ConGentel 4294 of October 12 that Department might wish to take action to avoid incident in connection with *Flying Trader* (reDeptel 2135, October 20, 7 p. m.) was entirely ConGen's idea. Neither Pattison, Isbrandtsen agent, or skipper *Flying Trader* had any knowledge this message before or after it was sent.

McCONAUGHY

893.115/10-2449 : Telegram

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

SHANGHAI, October 24, 1949—1 p. m.

[Received October 24—2:46 a. m.]

4491. A. P. Pattison, Shanghai agent Isbrandtsen Company, informs Consulate General [that] SS *Flying Cloud* ETD Hong Kong October 24 or 25 for Shanghai. Cargo for Shanghai discharged about 6,000 tons.

Sent Department 4491, repeated Hong Kong 334.

McCONAUGHY

893.00/10-2649 : Telegram

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

CHUNGKING, October 26, 1949—4 p. m.

[Received October 26—12:41 p. m.]

Cantel 1228. Foreign Minister Yeh informed Embassy today Chinese Government to reconsider "closure" policy shortly in light of contiguity Chinese Communist territory and Hong Kong. Says he will strenuously oppose measures which without real military value affect seriously living of people in Communist area such as attempts bomb Kowloon-Canton railway or trains operating over it. His position amounts to virtual abandonment of "closure".

We feel that with Chusan and Chinese [*mainland?*] threatened, Communists doubtless preparing "invasion fleet" for Formosa conquest and nature of waters in Hong Kong-Canton area,⁸⁹ Chinese Navy with limited numbers of vessels of any range at all cannot now render effective closure of major ports.

Yeh added that Nationalist military authorities had earlier indicated Canton could be held until end of year and plans for closure were based this premise. He considered fall Canton most serious blow yet to Nationalist Government and blamed it primarily on lack understanding of logistics on part of military authorities who failed provide ships move additional of Liu An-chi's forces from Hainan to plug gap at Kukong before Pai Chung-hsi forced by Communist offensive to return to Hengyang his troops formerly stationed that area.

Other reasons given for viewing seriously fall Canton were facts at least 2 million overseas Chinese have family homes Canton area and their support now probably lost to Nationalists and Chinese Government has now lost considerable income in form of overseas remittances.

Sent Department Cantel 1228; repeated Shanghai 567, Taipei 203, Hong Kong 50; Department pass Shanghai, Taipei, Hong Kong.

STRONG

893.115/10-2049 : Telegram

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

WASHINGTON, October 29, 1949—3 p. m.

TelCan 740. Following extract from Secretary's Press and Radio News Conference Oct. 12, 1949 quoted urinfo and guidance:

"Q. Mr. Secretary, the Isbrandtsen Steamship people say that they have sent you another telegram asking whether the State Department

⁸⁹ Meaning of sentence not clear; presumably garbled in transmission.

and Navy propose to do anything about protecting their third ship which is called the *Flying Trader*.

A. There it is (indicating Isbrandtsen telegram).

Q. They say their third ship has some cargo for General MacArthur.⁹⁰ Does that make any difference in our attitude?

A. I think they know our attitude very well. We have stated several times that we do not think that the National Govt has proclaimed—indeed it says it has not proclaimed a blockade. It is not maintaining an effective blockade in the sense that it is preventing ships from going in or coming out and therefore, as a matter of international law which concerns us deeply in other fields than this one, we do not regard this as a regularly established blockade in accordance with international law. It is not a policy of the United States Govt to attempt to break this blockade. We are not doing that. Everybody understands that. The ships that go in go in with full knowledge of the situation. We have told the Isbrandtsen Lines and other lines exactly what the state of affairs is and that in going into a hazardous situation, they are assuming the risks. Now, of that, I think there is no question. There are various statements of facts which are made by the Isbrandtsen Lines to the effect that the British Govt are convoying or escorting ships which I believe, to the best of my knowledge, are not correct. I am not speaking for the British Govt but so far as I know anything about it, I am saying it is not correct.

It is not correct so far as I know and it is a matter of fact to the best of my knowledge and belief that the British Govt is not escorting ships. It may be that I am wrong. The point is that this barrage of telegrams and publicity is designed to coerce or dragoon the United States Government into making declarations of policy which it does not intend to make and therefore, we are not going to be coerced or dragooned in this way.”

ACHESON

841.8591/10-2949 : Telegram

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

SHANGHAI, October 29, 1949—5 p. m.

[Received October 29—8 : 21 a. m.]

4598. Mytel 4583, October 28.⁹¹ Two British steamers arrived Shanghai October 29 from Hong Kong: (1) small tanker *Louise Moller*, cargo 2095 tons Diesel oil in bulk for Texas Company, expected to sail October 30 at 0300 hours; (2) SS *Tsinan* with general cargo. Pilot who brought in *Moller* informed Consulate General *Moller* entered Yangtze attended by British warship. Chinese warship on patrol ordered *Moller* to stop or would open fire. British warship

⁹⁰ General of the Army Douglas MacArthur, Supreme Commander, Allied Forces in Japan.

⁹¹ Not printed; it reported the *Flying Cloud* had been delayed by adverse weather in its voyage from Hong Kong (393.115/10-2449).

then ran between two vessels and trained guns on Chinese warship. Meanwhile SS *Tsinan* had come in from sea and joined procession. British warship escorted both vessels some distance into estuary before leaving them. Entry merchant vessels thus made under threat of force by British naval vessel. Further details subsequent telegram. American SS *Flying Cloud* due mouth Yangtze morning October 30.

Sent Department 4598; repeated Hong Kong 349; Department pass Chungking 44.

McCONAUGHY

393.115/10-3049: Telegram

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

SHANGHAI, October 30, 1949.

[Received October 30—4:51 a. m.]

4600. American SS *Flying Cloud* of Isbrandtsen Company arrived Woosung October 29 at 1900 hours. Arrived Shanghai 30th at 1030 hours local time. Master informed Pattison, Shanghai agent, that when passing into mouth Yangtze afternoon 29th, Chinese Naval LST on patrol signaled *Cloud* to stop but master ignored signal, continued course and passed within 100 yards of LST which took no further action. Master reported that British SS *Wosang* was followed [*following?*] behind but turned back before passing Chinese warship.

British ship *Louise Moller* sailed October 30 from Shanghai.

Sent Department 4600, repeated Chungking 1158, Hong Kong 350.

McCONAUGHY

841.3393/10-3149

Memorandum by the Acting Secretary of State to President Truman

[WASHINGTON,] October 31, 1949.

Subject: British attitude respecting protection of British merchant shipping in China area

Reference is made to my memorandum of October 20⁹² entitled "British Naval Convoy at Shanghai" outlining the British position with respect to Naval protection for British merchant shipping in the proximity of China. Briefly, the position of the British Government at that time was stated to be as follows: The British Navy is prepared to extend full protection to British merchant vessels as long as they are outside the territorial waters of China, but protection will be extended

⁹² *Ante*, p. 1150.

to British merchant vessels within the territorial waters of China only in the event of an actual attack or bombing and then only if the ships are not in "confined waters which are Communist dominated."

The Department has now been informally apprised by an officer of the British Embassy that although the scale and method of naval assistance which the British Government has been prepared to offer remains unchanged, the spirit of the British attitude has been modified with Ministerial approval. Whereas, following the Chinese closure order, British shipping was advised that control to the entrance of the Yangtze by the Nationalists was complete and no encouragement was given to British ships to enter, the successful entrance of the three Isbrandtsen ships led to fresh inquiry from British shipping circles and caused a review of the previous assessment. Consequently, British shipping interests were informed on October 1 that experience had indicated that the closure of Shanghai was not in fact complete and that attempts to enter Shanghai would not embarrass the British Government although shipowners would have to decide for themselves whether voyages were to be attempted.

Under existing circumstances, the British Navy is within its rights under international law in protecting British merchant shipping on the high seas outside Chinese territorial waters. Furthermore, the British Navy would be within its rights under international law in entering Chinese territorial waters to protect British merchant vessels being subjected to unlawful attack. However, under certain circumstances, an attack by Chinese Nationalist forces within Chinese territorial waters might not be unlawful, as for example in the lawful enforcement of Chinese customs regulations, and it cannot be stated without qualification that all attacks may be answered with force. In the British view, territorial waters comprise the waters within a three-mile limit. Although the Chinese Government closure order does not define territorial waters, information available to the Department indicates that the Chinese view is likewise that territorial waters do not extend beyond the three-mile limit.

The American Consulate General at Shanghai has reported information from official British sources that British warships are now patrolling off the mouth of the Yangtze to assure safe passage of British vessels outside the three-mile limit. The Consulate General adds, "It appears that the British intention is to force the issue to a certain extent if not actually to break the blockade." In the Department's view the British Government does not intend, for the present at least, to break the "blockade" by force, but it has moved significantly in the direction of encouraging British merchant shipping to defy the "blockade".

The British decision to protect British merchant vessels to the extent outlined does not arise from any obligation under international law to take this action but rather from considerations of national policy. The Department has made it clear to the Isbrandtsen Company that British measures with respect to protecting British merchant vessels in no way obligate this Government to undertake similar measures.

JAMES E. WEBB

893.00/11-449 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 4, 1949.

[Received November 4—9:31 p. m.]

660. CAF⁹³ here has informed British Air Attaché yesterday, and American today, that instructions have been received to bomb all shipping in Formosan Straits and that Chinese Foreign Ministry will so notify foreign representatives in Chungking.

Sent Department 660; repeated Chungking 216, Hong Kong 66, Tokyo unnumbered.

MACDONALD

893.801/11-549

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 5, 1949.

Mr. Ford⁹⁴ informed me this morning that subsequent to the receipt of notification from the Chinese Government by the British naval authorities at Hong Kong that the Chinese Air Force would bomb all shipping entering Chinese ports or territorial waters the British Foreign Office had handed a note to the Chinese Ambassador at London stating that the British Government would view as illegal and as an unfriendly act an attack of this nature on any British ships.

893.801/11-549

Memorandum of Conversation, by the Director of the Office of Chinese Affairs (Sprouse)

[WASHINGTON,] November 5, 1949.

Mr. Ford showed me this morning a copy of a telegram from the British Foreign Office to the British Consul General at Chungking instructing the latter to inform the Chinese Government as follows:

⁹³ Chinese Air Force.

⁹⁴ J. F. Ford, First Secretary of the British Embassy.

1. Chinese naval vessels and military aircraft would not be permitted to refuel or obtain supplies at Hong Kong and Chinese military aircraft should not fly over Hong Kong and the leased territories.

2. The Sino-British Convention of 1898⁹⁵ (Kowloon Lease Agreement) did not contemplate that Chinese naval vessels should use the waters of Mirs Bay and Deep Bay to carry on military operations.

3. The British Government wished to bring the foregoing to the attention of the Chinese Government in order that there should be no misunderstanding.

893.00/11-449 : Telegram

*The Secretary of State to the Chargé in China (Strong)*⁹⁶

WASHINGTON, November 5, 1949—5 p. m.

TelCan 745. Re Taipei's 660, Nov 4, rptd Chungking 216, Hong Kong 66, and AirAtt⁹⁷ Taipei's 011, Nov 5,⁹⁸ being rptd Chungking Hong Kong Shanghai.

You are instructed seek appointment with FonMin⁹⁹ and inform him orally of receipt this info from CAF. You shld state US Govt trusts that this info inaccurate or that it represents attitude irresponsible elements Taipei and not considered view Chi Govt, and you shld request assurances this regard. You shld add that US Govt wld view with serious concern any declared intention Chi Govt bomb US vessels either on high seas (Formosan Straits) or within Chi terr waters, whether those waters controlled by Natl Govt or Chi Commies; that US Govt wld consider any unprovoked attack on US shipping as act of utmost gravity and one not in consonance with relations friendly nations.

ConGen Taipei shld orally inform Chen Cheng¹ above representations being made Chungking.

ACHESON

893.00/11-749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 7, 1949—4 p. m.
[Received November 8—4:33 a. m.]

677. Information contained in Deptel 434, November 5² conveyed orally to Chen Cheng this morning. He assured me no American ship-

⁹⁵ June 9, 1898: J. V. A. MacMurray, *Treaties and Agreements With and Concerning China, 1894-1919*, vol. 1, p. 130.

⁹⁶ Repeated to the Consul General at Taipei as No. 434.

⁹⁷ Air Attaché.

⁹⁸ Latter not printed.

⁹⁹ George Kung-chao Yeh.

¹ Governor of Taiwan.

² *Supra*.

ping will be molested but said they must take precautions against ships flying British flag due to unconfirmed rumor that Communists purchased British vessels and still flying British flags.

Nationalist Government here has taken increasingly unfriendly attitude towards British. British Air Attaché was refused permission for RAF³ plane land Taipei today.

Other day I remarked casually to K. C. Wu⁴ that I considered orders to CAF to bomb shipping in Formosan Straits and Chinese territorial waters serious mistake. He laughed and said "American ships have nothing to fear but personally I wish they would drop a few bombs on some British ships.[""]

MACDONALD

393.115/11-849: Telegram

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

CHUNGKING, November 8, 1949—5 p. m.

[Received November 9—12:33 a. m.]

Cantel 1265. Foreign Minister Yeh informed afternoon November 7 of information contained refelts cited telCan 745, November 5, repeated Taipei 434, Shanghai 2224, Hong Kong 279 as well as US attitudes.

Yeh was obviously embarrassed and hastened to explain he first heard of matter on VOUSA broadcast morning November 6; shortly thereafter he received British protest. Following day-long consultations Premier Yen Hsi-[shan]—as Minister National Defense—issued order to CAF forbidding it to contact foreign representatives on such matters and ordering that no vessels were to be bombed either in territorial waters or on high seas without instructions from Ministry National Defense which instructions to be countersigned by Minister Foreign Affairs. Minister Foreign Affairs still controlled policy on closure and CAF had no right to take such action which did not represent policy Chinese Government. Requested this matter be kept confidential [in] order not permit Communists make capital of it.

Yeh then added he wished state that where it could be kept effective Chinese Government intended continue closure policy but said he wished it understood he would never consider it advantageous to bomb foreign shipping. He then launched into detailed account of bombing of British vessel *Anchises* "by mistake owing to complete lack national markings visible from plane" and said Chinese Government willing pay compensation for this incident.

Yeh expressed appreciation for attitude US Government toward closure and hoped US would continue dissuade US vessels from violat-

³ Royal Air Force.

⁴ Former mayor of Shanghai.

ing it. We then reminded Yeh the US does not recognize closure and stated that Department neither dissuades vessels from entering ports declared "closed" nor advocates entrance US vessels such ports but merely points out prevailing circumstances, whereupon individual shipping companies must determine own course of action.

Although he had no right to do so, Yeh said he would advise confidentially CAF now had orders to bomb transport and related facilities in Communist areas and suggested US Government instruct American ships leave Communist ports. He desired US Government inform him which vessels in which ports and when would leave in order that safe conduct could be assured. Further suggested American flag be displayed prominently in order to assure identification. Said reason for this was that CAF could not be sure always hit docks and godowns instead of nearby vessels. Actually, he said, he was not advocating that American ships not enter blockaded ports and suggested we not overlook the "nuance" intended.

What he plainly meant was that any US vessel entering Communist port would not be molested; rather the contrary, that Foreign Office only wished know their whereabouts and schedule in order to avoid any possibility of damage to such vessels. (No mention made of similar attitude toward British shipping.)

We agreed to Yeh's request that information "closure" continuation and his "nuance" be transmitted to Department. He then added that in last 10 days many Chinese Communist vessels had registered under Panamanian and other Latin American flags from Hong Kong and thus gained international protection. The ships belong to Shanghai shipping firms with offices in Hong Kong.

Sent Department; repeated Taipei 208, Shanghai 569, Hong Kong 54; Department pass Taipei, Shanghai, Hong Kong.

STRONG

893.801/11-1049: Telegram

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

CHUNGKING, November 10, 1949.

[Received November 10—4: 06 a. m.]

Cantel 1269. Cantel 1031, August 27. Embassy received note dated November 7 from Chinese Ministry of Foreign Affairs referring to its note August 24 (full text of which given Cantel 1031), stating Chinese Government has decided to close temporarily beginning midnight November 7, 1949 region along seacoast and within Chinese territorial waters from a point north of the mouth of Weitou Bay, 118 degrees 34 minutes east longitude and 24 degrees 31 minutes north

latitude and southward and westward to a point west of the region of Tienpai Hsien, Kwangtung Province, 211 degrees 20 minutes east longitude and 21 degrees 30 minutes north latitude and at same time to close five ports of Amoy, Swatow, Canton, Kingpei and Chiangmen. Ministry's communication requests Embassy take due note of this order, transmit it to US Government and instruct US shipping companies observe it.

Sent Department Cantel 1269; repeated Shanghai 570, Nanking 684, Taipei 210, Hong Kong 55. Department pass London 5.

STRONG

841.85/11-1249 : Telegram

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

SHANGHAI, November 12, 1949—3 p. m.
[Received November 12—11:51 a. m.]

4774. British tanker *Louise Moller* arrived Shanghai November 10 from Hong Kong. Master continued course when challenged by Chinese gunboat in Yangtze estuary. Gunboat fired on *Moller* with small arms but no casualties. Ship sailed from Shanghai for Hong Kong November 12, 0630 hours. Inward cargo 2285 tons Diesel oil consigned Stanvac⁵ and Shell Oil. American *Flying Cloud* ETD November 13 at 0500 hours.⁶ Master will attempt run blockade.

To pass CNO.

McCONAUGHY

393.115/11-1549 : Telegram

*The Consul General at Shanghai (McConaughy) to the Secretary of State*⁷

SHANGHAI, November 15, 1949.
[Received November 15—10:13 a. m.]

Unnumbered. Message from master *Flying Cloud* dated November 15 at 1845 hours local time states that *Cloud* now anchored north of Fairway buoy (mouth of Yangtze), that Chinese National gunboat fired hundreds of rounds at ship of various calibers, including 3-inch, causing some damage to vessel's structure. Vessel holes inside. Master states making repairs tonight (November 15) weather permitting.

⁵ Standard-Vacuum Oil Co.

⁶ In telegram No. 4786, November 14, 4 p. m., the Consul General reported that the *Flying Cloud* sailed from Shanghai on November 13 at 1130 hours local time.

⁷ Repeated to the Chargé in China as telCan No. 757, November 16, 4 p. m.

Presume foregoing sent immediately after *Cloud* ran blockade and is first message from master since ship left Shanghai November 14 [13] at 1130 hours local time.

McCONAUGHY

393.115/11-1549: Telegram

*The Secretary of State to the Consul General at Shanghai
(McConaughy)*⁸

WASHINGTON, November 15, 1949—7 p. m.

2271. Urtel unnumbered, November 15. Pls endeavor most urgently obtain full report all details regarding Natl gunboat's attack *Flying Cloud*. Particularly desire info re fol: Did Natl gunboat signal *Cloud* and at what position; did gunboat fire warning shot; at what point did gunboat open fire which inflicted damage *Cloud*.

ACHESON

393.115/11-1649: Telegram

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

SHANGHAI, November 16, 1949—1 p. m.

[Received November 16—2:11 a. m.]

4804. ReDeptel 2271. Pattison Company, Isbrandtsen agent, has radioed Master *Flying Cloud* for details. Will reply soonest. British *Wosang* and *Tsinan*, held in Yangtze territorial waters, released by Chinese gunboat and sailed for Hong Kong November 16. Local company offices unaware reason for release. Norwegian *Promise*, food gone, gave up attempt enter and sailed for Tsingtao November 15. Greek *Armathia* previously held Chusan Island reported arrived Hong Kong November 14.

McCONAUGHY

393.115/11-849: Telegram

*The Secretary of State to the Chargé in China (Strong)*⁹

WASHINGTON, November 16, 1949—4 p. m.

TelCan 756. Request you seek urgently appointment with FonMin and inform him orally of reported attack made on *Flying Cloud* by Chi Navy gunboat on Nov 15 in mouth Yangtze (Shanghai's unnumbered tel Nov 15, rptd Chungking telCan 757). Inform FonMin that

⁸ Repeated to the Chargé in China as telCan No. 757, November 16, 4 p. m.

⁹ Repeated to the Consul General at Shanghai as No. 2274 and to the Consul General at Taipei as No. 465.

US Gov is now collecting all facts concerning attack. However, in line with US Gov's attitude as expressed to FonMin on Nov 7 (telCan 745, Nov 5, Cantel 1265, Nov 8), regardless of circumstances the US Gov regards any attack on Amer vessels with the gravest concern. Inform FonMin that US Gov will hold ChiGov responsible for any violation of internatl law, and that, depending on the circumstances, US Gov wld expect to hold the ChiGov fully responsible for any harm to Amer citizens or damage to Amer property which may have resulted from action of Chi Navy.

ACHESON

393.115/11-1649 : Telegram

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

SHANGHAI, November 16, 1949—6 p. m.
[Received November 16—5:47 a. m.]

4816. Urtel 2271, November 15. Message from Master *Flying Cloud* dated November 16 at 1340 to Pattison and Co., Isbrandtsen agents Shanghai, states:

At 0713 November 15 *Cloud* challenged by shot across bow. Anchored 9 cables 296 degrees from charted position Kiutoan light vessel. Boarded by Lieutenants Tang and Wang who spoke fair English. Miss Hoffman (US Military Attaché's Office, Nanking) clarified points in Chinese when necessary. Requested permission to proceed with food for Norwegian steamer *Promise* which vessel without food for 4 days and in distress. According tradition of sea, she must be given succor. We suggested he signal from his ship to proceed this errand and British warship would receive it. He thereby save face. I pointed out that USA still recognizes Nationalist Government but not blockade and we then notified commander that permission or not we would sail at beginning of flood tide. At 1500 a signal from gunboat denied permission proceed. At 1536 *Cloud* proceeded down river with DE and fishing type motor ship steaming into position for firing. When 3 cable lengths 144 degrees from lightship at 1542 hours they commenced firing and at 1555 hours they ceased. Used all calibre from carbines up including two 3-inch shots. At 1553 shell burst Nr. 1 fire hydrant and immediately after a 3-inch shell made one 3-inch hole in Nr. 4 lower 'tween-deck port side. Hundreds small calibre peppered side above main deck structure. Avoided gunboat's position after firing commenced. It was imperative keep course to avoid beaching vessel or hitting wrecks. No casualties. All local time given in foregoing message.

McCONAUGHY

393.115/11-1749 : Telegram

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

SHANGHAI, November 17, 1949—5 p. m.

[Received November 17—7:20 a. m.]

4842. Re attack [by] Nationalist DE on American ship *Flying Cloud*, Consulate General regrets impossibility obtaining any first hand reports in Shanghai. Fullest possible accounts have been obtained by radio from master of *Flying Cloud* and relayed to Department. Suggest additional information may be obtained from Captain and passengers at Pusan tomorrow if Embassy [in] Seoul can send representative there to take statements. In addition to *NYT*¹⁰ correspondent Sullivan, qualified observer is Miss Esther Hoffman, responsible senior employee Military Attaché office China with long experience. Consulate General has endeavored obtain accounts by radio from masters British merchant ships anchored in vicinity and from British frigates on patrol in Yangtze estuary but latter apparently too distant for observation and former have submitted only fragmentary reports which throw no new light on incident. Suggest Consulate General Taipei may be able to get Nationalist Navy version when DE returns Taiwan from patrol duty. Consulate General Hong Kong may be able obtain some evidence from officers and passengers *Wosang* and *Tsinan* scheduled arrive November 19.

While Consulate General naturally does not condone this apparently all-out attack by heavily-armed naval vessel on defenseless American ship, it [is] believed, in interest of obtaining a fully objective view of incident from all angles, following circumstances should not be overlooked:

1. Both vessels apparently were clearly within Chinese territorial waters throughout period of firing, based on 3-mile limit as defined by British Admiralty.

2. Master *Flying Cloud* was fully warned by Chinese DE that he did not have permission to proceed. Warning effected not only by earlier shot across bow but also by personal visit to *Flying Cloud* two officers DE who issued oral warning to master.

3. Master was presumably aware of probability that his rejection of orders DE would result in exposure his ship to gunfire from Chinese warship, which had previously used small arms fire against British tanker *Louise Moller*.

Consulate General suggests that, regardless of indefensibility action of Captain of DE in opening fire, master *Flying Cloud* may be open

¹⁰ *New York Times*.

to censure for unjustifiably endangering lives passengers and crew his vessel.

Sent Department, repeated Hong Kong 484, Taipei 488, and Seoul 52.

McCONAUGHY

393.115/11-1749 : Telegram

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

CHUNGKING, November 17, 1949—7 p. m.

[Received 10:24 p. m.]

Cantel 1291. In absence Foreign Minister Yeh in Hong Kong, Vice Minister Foreign Affairs [Hu] Ching-yu was informed afternoon November 17 as instructed telCan 756, November 16, repeated Shanghai 2274, Taipei 465.

Hu stated he had had report of incident November 16 and had at once requested full investigation and report by Admiral Kwei Yung-ching pending receipt of which Chinese Government reserved its opinion. He added that trouble of course could be traced to nonacceptance by US Government of closure which US seemed think of in terms of blockade.

A protest by US Government had been expected, he said.

Sent Department Cantel 1291, repeated Shanghai 573, Taipei 224. Department pass Shanghai, Taipei 224.

STRONG

393.115/11-2049 : Telegram

The Ambassador in Korea (Muccio) to the Secretary of State

SEOUL, November 20, 1949—11 a. m.

[Received November 20—4:22 a. m.]

1419. Embtel 1411, Deptel 973.¹¹ Following text Vice Consul Valdes' ¹² report dated November 18 on *Flying Cloud*.

"I have the honor to report the arrival in Pusan, at 0800 a. m., November 18, 1949, of the American SS *Flying Cloud*, after a voyage from Shanghai, China.

"On her voyage into Shanghai, the SS *Flying Cloud* was challenged by blinker by a Chinese Navy LST, armed with 3-inch guns. As the guns were covered and the LST could not therefore order the *Flying*

¹¹ Neither printed.

¹² Philip H. Valdes, Vice Consul at Seoul and Third Secretary of Embassy in Korea.

Cloud to stop by putting a shot across her bow, Captain F. H. Rylander picked up speed and steamed into Shanghai.

"In port the ship loaded approximately 2,000 dead-weight tons of cargo for the US, the cargo consisting mostly of tea, but also including cotton, bristles, duck feathers, and goose feathers. A payment of \$8,500 was received for freight charges, the Communists paying in American notes of all denominations from \$1 to \$100, including a few \$2 bills. The notes did not appear very worn. The ship also loaded stores for the Norwegian ship *Promise*, A. P. Pattison and Co., being agents both for the Isbrandtsen Line and the *Promise*. The latter was being held at the entrance of the Yangtze River for lack of Nationalist clearance to enter Shanghai, and at the time the *Flying Cloud* sailed from Shanghai, on November 13, had been without stores for 4 days, therefore technically being a ship in distress. It was hoped that by carrying stores for a distressed ship the *Flying Cloud* would have a better chance of being cleared by the blockading ships.

"Captain Rylander anchored at Woosung overnight and on November 14 proceeded down river. He wanted to make the run past the blockade ships at flood tide and accordingly again anchored overnight. In sight of where he anchored, but hull down, were a Chinese Navy destroyer escort, Jap-type fishing motorship taken over by the Chinese Navy, and two British merchant ships they were holding, the SS *Wosang*, of Jardine, Matheson, and the SS *Tsinan*, of Butterfield and Swire. On the morning of November 15, Captain Rylander heaved anchor and proceeded down river. The Chinese DE challenged him by flashing "A" (request for call letters) from an arc-searchlight mounted on her mast. This was at a range of approximately 5 miles, and the *Flying Cloud* had no blinker strong enough to permit a reply. At 0713, and at a range of about 3 miles, the DE put a shot across the bow of the *Flying Cloud*. This was apparently a blank shell, as no one on the American ship observed a splash. Captain Rylander immediately answered the DE's challenge and was instructed to anchor. He replied that he would anchor when closer. He was asked if he had passengers and cargo, and he replied in the affirmative. He anchored when he was within 2 miles of the DE, which was at the charted position of the [garble] light vessel (which had been removed). At 0942 a boarding party consisting of two lieutenants (Tang and Wang), apparently unarmed, escorted by two armed sailors, arrived in the fishing vessel. Captain Rylander asked Miss Esther Hoffman, secretary of the American Military Attaché in Nanking, Brig. General Soule, to be present at the meeting as interpreter.

"The Chinese lieutenants were most courteous, according to both Captain Rylander and Miss Hoffman, and seemed rather distressed

at their mission. They opened the conference by explaining that they had stopped the *Flying Cloud* because they had been ordered to do so. The Captain requested permission to proceed with his food for the *Promise* and pointed out that the tradition of the sea called for succoring of a ship in distress. He suggested that the Chinese warship signal 'proceed this errand' in a way that the two British merchant ships could read the message, saying that the British would understand, and hinting that in this manner the Chinese would have face (but not using the expression "save face"). He was asked if he had any contraband on board. He replied that he did not. He was asked if he had any Chinese passengers. He replied that he did not, but he had one Chinese crew member. He handed the officers a copy of a radiogram he had received from Hans Isbrandtsen, owner of the Line, ordering him to proceed even if stopped, and explained that his orders were therefore to sail and that he intended to do so at 1500, with the flood tide. He preferred to sail with their permission, but he would sail in any case.

"He stressed that while the US Government recognized the Nationalist Government of China, it did not recognize the blockade. When he pointed out that there were American passengers aboard the officers requested and were given passenger list. They also requested, and were given copy of the manifest and of customs clearance, the Captain having stated that the ship carried American Government ECA cargo for Korea. According to Miss Hoffman, the Captain furnished every document requested. At one point in the conference, the Captain left his room in search of some documents, and the Chinese officers asked Miss Hoffman in Chinese if he really did plan to sail. She replied that he did, and repeated that he would like to sail with their permission. She emphasized that they should understand that he intended to proceed in any case, and that he was not bluffing. She feels that they were difficult to convince of this fact, and believed that they were not able to convince their commander of it. She commented to the officers that she hoped that they would not try to stop the ship by force because of the harmful publicity that would ensue.

"When the Captain returned the same subject was covered again. The Captain suggested that if they followed him when he got under way they had best be careful, or the British ships would slip out behind him. One Chinese officer, who understood English, learned [*sic*] and agreed that they probably would. During the course of conference Mr. Walter Sullivan, *New York Times* correspondent assigned to Korea, sent up note stating that he was proceeding to Korea at the request of President Rhee. The Captain passed the note to the Chinese officers.

"From attitude of the two Chinese lieutenants, both Miss Hoffman and Captain Rylander felt that if the two British ships had not been present the Chinese would have let *Flying Cloud* proceed. They felt that after China had held British ships for 11 days, they considered that some sort of resistance was demanded in case of *Flying Cloud*.

"After Chinese officers returned to their ship there was no word from DE until approximately 1300, when commander signaled that he regretted he had no authority to permit *Flying Cloud* to proceed and suggested that Captain contact his Government to arrange matter with Chinese Government, or return to Shanghai and discharge his cargo (not specifying whether he meant entire cargo or merely that part loaded in Shanghai). He added 'please take my advice otherwise I cannot be responsible for any accident'. He then said he was informing his superiors. Captain Rylander replied he was sailing on evening tide, at 1500.

"An hour or so later the DE flashed a final message:

'I am so sorry, your Government has been so kind to our country. However, I have no authority to permit you to proceed. I suggest you return to Shanghai and discharge cargo.'

"Captain Rylander placed all passengers in first 'tween-deck in passageway along engine room on side away from DE (starboard), and at 1536 he heaved anchor and got under way. He was able to heave anchor unobserved by virtue of having originally halted 2 miles from the DE, but as soon as he was seen to move, both fishing vessel and DE steamed into firing position. At 1542 fishing vessel opened fire with carbines, and DE soon joined in with weapons of all calibres. The Captain at this point had to negotiate a bend in channel, steering a close course between wreck and beach, and had to offer his broadside at range of about 400 yards from the DE. At 1553 small shell, probably 20 millimeter, burst the ship's number 1 fire hydrant in the port bow, and immediately thereafter 3-inch shell hit number 4 hold lower 'tween-deck on port side. Hundreds of small calibre bullets hit the hull but none penetrated. The firing was over at 1555, and neither Chinese warship made any attempt to follow the *Flying Cloud*. The firing started well astern, obviously intended as a warning, and gradually crept towards ship. It was obvious, according to Captain, that Chinese were carefully avoiding deck housing and superstructure, and were, therefore, trying not to hit any personnel. The DE had a main battery of three 3-inch guns, but only one was fired, and that only twice. Given extremely short range and fact that main battery of DE was virtually not used, it would appear that Chinese commander was not trying seriously to damage the ship.

"The only damage resulted from the single hit by a 3-inch shell. The shell was apparently set for instantaneous explosion, for it tore a hole in the hull 13 by 15 inches. The Captain said he could not have chosen a better spot for shell to hit, since only things stored near hole were some old grab buckets that were not damaged. The only damage to cargo was possibly a pound of slightly battered tea.

"Two miles outside Kiutoan Spit buoy the ship passed a British frigate (F-60) which signaled that *Promise* had not been able to wait for her stores, but had sailed for Hong Kong.

"It should be pointed out that the signals cited above are not verbatim. The Captain stated that he did not record the blinker signals verbatim. The above account, however, was obtained from the Captain, Miss Hoffman, and Mr. Sullivan, and no one story contradicted either of the others."

MUCCIO

893.115/11-2649 : Telegram

*The Acting Secretary of State to the Consul General at Hong Kong
(Rankin)*

WASHINGTON, November 26, 1949—3 p. m.

TelCan 771. [For Chargé Strong.] Inform FonMin Dept still awaiting reply previous representations incident involving *Flying Cloud* and danger lives US cits and in this connection tell him US vessel *Sir John Franklin* left Hong Kong Nov 25 expected arrive Fairway Buoy mouth Yangtze early morning Nov 28 (Wash time) bound Shanghai and Tientsin. You shld make clear Dept in conveying this notification to FonOff does not assume any responsibility for giving notification in individual cases in future but in this case was informed by US shipping company schedule its ship and requested inform Chi Govt.

Dept giving no publicity this notification.

WEBB

893.115/11-2849 : Telegram

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

SHANGHAI, November 28, 1949.

[Received November 28—7:34 a. m.]

4960. Message received by A. P. Pattison & Company, Isbrandtsen agents Shanghai, from master of SS *Sir John Franklin* dated November 28 at 1700 hours local time and while ship was proceeding up

Yangtze states that his ship was shelled and hit but that he was proceeding with Chinese DE chasing. A second message dated 1815 hours stated that he was still coming and would arrive Woosung 1845 hours. Master requested that Woosung Fort be alerted and that Whangpoo pilot be ready at daylight. Message stated that ship had been hit 12 times but was not shipping water. No injury to personnel. Full details subsequent telegram.¹³

McCONAUGHY

393.115/11-2849 : Telegram

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

WASHINGTON, November 28, 1949—1 p. m.

2331. Urtel 4960, Nov 28. Pls transmit earliest full report attack *Sir John Franklin*, including master's affidavit, info re signals exchanged between *Franklin* and Chi Naval craft and geographical position vessels when firing occurred.

WEBB

393.115/11-2949 : Telegram

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

HONG KONG, November 29, 1949—4 p. m.

[Received November 29—8:44 a. m.]

Cantel 1315. TelCan 771, November 26. In response to reiteration of contents, telCan 745, November 5 and 757, November 16,¹⁴ afternoon November 28, and to my request for early reply, Foreign Minister Yeh stated that he had no knowledge of background of *Flying Cloud* incident but would contact Foreign Office, though considerable delay would ensue view disruption caused by moving from Chungking to Chengtu. He agreed to suggestion that he communicate with Admiral Kwei through Taipei office of Foreign Office and thus obtain report much more promptly. It was pointed out to Yeh that Foreign Office Chungking had on November 16 requested Foreign Office handle matter through Chinese Embassy Washington (Cantel 1306, November 25¹⁵) following our departure for Hong Kong, and that we could not understand in [*no?*] reply, promptness in which would have been

¹³ Telegram No. 4961, November 28, not printed; for more complete report, see telegram No. 4977, November 29, p. 1173.

¹⁴ TelCan No. 757 repeated unnumbered telegram of November 15 from the Consul General at Shanghai, p. 1163.

¹⁵ Not printed.

advantageous to Chinese Government as well as to US Government. Answer at earliest date was promised by Yeh. However, there is good possibility that he will still contact Foreign Office [in] Chengtu before full response, in which case delay of at least week will ensue.

With regard SS *Sir John Franklin*, Yeh said Chinese Government still intended enforce "closure" and although all precautions would be taken of [against?] damage [to] ships, Chinese Government would have to take measures to stop firms such as Isbrandtsen from repeatedly violating "closure". He said information reference schedules of US vessels desired only in relation vessels leaving Communist ports at time of conversation reported Cantel 1265, November 8. Yeh seemed somewhat embarrassed on this topic and we gather that his own generous attitude toward US shipping has been overruled by prior organs of Chinese Government. He expressed hope Department recognized all his efforts protect American vessels. He was again told US stood on its legal position regarding "closure", that it viewed such incidents as shelling of *Flying Cloud* in serious light, and that it reserved position regarding compensation for damages.

Yeh added that Isbrandtsen supposed to have agreement with Communists in Shanghai to end Communists will compensate company 60 percent of any losses incurred in calls there. Presumably includes damages inflicted by Chinese Royal [Natl?] Navy or CAF.

STRONG

393.115/11-2949 : Telegram

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

SHANGHAI, November 29, 1949.

[Received November 29—9:29 a. m.]

4977. Re encounter SS *Sir John Franklin* with Chinese Nationalist war vessels November 28 in Yangtze River approaches to Shanghai. *Franklin* arrived Shanghai wharf November 29, at 1030 hours. Master not permitted ashore by Immigration today nor could Consulate General representative board ship but the master Warren R. Hardy reported to Consulate General by telephone as follows:

November 28 at 1600 hours local time when ship was passing Kiutoan Spit buoy was challenged by one of two Chinese destroyer escorts anchored nearby, one being 500 yards SW of buoy, other 100 yards due east of buoy. Master answered query of DE as to identity of his ship. Then in response to signal from DE, "You must stop and anchor", master replied "Unable anchor here due to deep draft. Please board me under way or accompany me to deep water at Foo Ching buoy". At

1614 hours DE opened fire without further signal, first shot from 40-millimeter gun passing between bridge and mast. Master decided immediately to proceed full speed since he was drawing 28 feet and if required remain there until low tide considered he would certainly go aground with danger losing ship. He decided he had better chance saving ship by making a run for Woosung than by submitting to order to anchor in shallow water. At 1620 second DE opened fire on port side. The DE weighed anchor and pursued *Franklin* maintaining almost continuous barrage. Master estimates 12 to 15 3-inch shells fired with two hits from 3-inch shells and numerous hits from several hundred rounds 40-millimeter fire. One 3-inch shell struck hull above water line between No. 1 and No. 2 holds. Other shell apparently aimed at bridge luckily struck davit and ricocheted into vacant purser's quarters exploding inside. Master expressed belief this shell would have killed or injured everyone on bridge if not deflected by davit. Forty-millimeter bullets punctured or damaged port bow anchor windlass, hull amidships, engine store room, stack and cargo boom. Damage only superficial and repairs can be effected Shanghai. Passengers and crew went to starboard side amidships as soon as firing started in good order in accordance with prearranged signal. No casualties. Following signals exchanged after DE started pursuit at 1630: From *Franklin* "We will anchor in deep water at Foo Ching buoy". From DE "You must stop now". DE fired after each signal striking hull of *Franklin*. At 1712 master stopped *Franklin* engines, prepared to anchor in deep water. This was approximately 13 miles from Kiutoan Spit buoy. Master signaled DE "Engines stopped, am anchoring". DE made no reply but continued firing. Master therefore proceeded full steam ahead, at 1718 deciding he would try to reach protection guns Woosung Fort. Ship's engines responded well and from 1720 *Franklin* gained on DE which rapidly lost range. *Franklin* aided by darkness which set in rapidly at this time. DE gave up chase by firing 3 final evenly-spaced 40-millimeter rounds.

This ends master's account which is corroborated by excerpts from his log which agents are telegraphing to Isbrandtsen, NY, tonight. Master intends to call Consulate General tomorrow morning with log which will be inspected by Consulate General. Further report will be telegraphed if any new information of value elicited.

Following additional minor points made by master in telephone conversation:

(1) His instructions from owner were not to endanger passengers or crew by exposing them to gunfire if avoidable. He asserts he had every intention of obeying any orders accompanied by threats of force and defied Nationalist warships only because he was in shallow water when stop order received.

(2) He believes Chinese warships threw everything they had at his ship. Unlike case of *Flying Cloud* when Chinese warship obviously pulled its punches, he thinks warships were prepared to go any length to force him to turn back and anchor near Kiutoan Spit buoy.

(3) Master thinks his ship was saved by combination of three circumstances.

- (a) Neither DE was under way when first challenge was given.
- (b) His engine responded well.
- (c) Early nightfall.

(4) British frigate *Black Swan* was anchored short distance outside Kiutoan Spit buoy and witnessed first part of encounter.

While Consulate General has no doubt accuracy master's statements, it is realized corroborating evidence from disinterested sources would be useful; Consulate General therefore endeavoring to obtain eye-witness statements from HMS *Black Swan* and British merchant ship *E-Sang* also anchored near Kiutoan Spit buoy. Evidence indicates both Chinese destroyers were within 3-mile limit as defined by British Admiralty at all stages of firing. Charts show area where *Franklin* ordered to anchor is shallow water unsafe at low tide for deep draft vessel. While action of master probably increased jeopardy to passengers and crew, it would seem to be the course best calculated to reduce risk of loss of his ship. While it may be argued that *Franklin* received warning before being fired upon, action of DE in opening fire without reply to second message from *Franklin* was abrupt to say the least. Weight should also be attached to action of DE at 1712 in ignoring *Franklin's* signal and continuing fire when *Franklin* wished to anchor in deep water.

Sent Department, repeated Taipei 518, Hong Kong 402 for Strong.
MCCONAUGHY

393.115/11-3049 : Telegram

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

WASHINGTON, November 30, 1949—noon.

TelCan 774. [For Chargé Strong:] Request you deliver urgently to FonMin fol note re attack *Sir John Franklin*. (Shanghai's 4960, Nov 28 rptd Hong Kong as telCan 775; Shanghai's 4961, Nov. 28,¹⁸ rptd Hong Kong telCan 776.)

"The Amer Emb presents its compliments to the Ministry of Fon-Affs and has the honor to express the serious concern of the US Govt with regard to the attack made on the Amer flagship *Sir John Franklin* by a Chi Naval vessel on Nov 28 in the Yangtze River approaches.

¹⁸ Not printed.

It is the understanding of the US Govt, as reported by the Master of the *Sir John Franklin*, that in reply to the Chi Naval vessel's signal to stop the Master signalled as follows:

'Unable anchor here due deep draft. Pls board me underway or accompany me to deep water at Foo Ching Buoy'.

The Master of the *Sir John Franklin* reported that without making any further signal the Chi Naval vessel opened fire, whereupon the Master decided to proceed immed at full speed since to have anchored as instructed would have resulted in the ship's going aground at low tide. Shortly thereafter a second Chi Naval vessel, which was anchored nearby, weighed anchor and pursued the *Sir John Franklin* maintaining an almost continuous barrage of fire. In his statement the Master said that the *Sir John Franklin* sustained damage from several 3-inch shells and numerous rounds of 40-mm shells; that one shell, apparently aimed at the bridge, struck an object from which it ricocheted into an officer's vacant quarters and there exploded. The Master has expressed his belief that this shell would have killed or injured everyone on the bridge had it not been deflected. Some time later having reached sufficiently deep water, the Master stated, the *Sir John Franklin's* engines were stopped at a point approximately 13 miles from Kiutoan Spit Buoy and preparations were made to anchor. The pursuing Naval vessel was so informed by signals but made no reply and continued firing. The Master of the *Sir John Franklin*, therefore, again ordered his vessel to proceed at full speed.

As the ChiGov was informed by the Emb's note of June 29, 1949, in the absence of a declaration and maintenance of an effective blockade the US Govt cannot admit to the legality of action on the part of the ChiGov in declaring certain Chi ports and territorial waters adjacent thereto, not actually under control of the ChiGov closed to fon vessels. The action of the Chi Naval vessel in indiscriminately and wantonly firing on an Amer flagship and thus endangering Amer lives was unjustifiable and contrary to the law and practice of nations. Accordingly the US Govt holds the Chi Natl Govt fully responsible for any losses sustained by Amer natls as a result of these reckless acts.

Further, the Govt of the US is contrained to point out to the Chi Natl Govt the seriousness with which it views this attack upon Amer life and property. It is therefore requested that the ChiNatlGovt immed issue such orders as will preclude the possibility of any future incident of this nature.

The Ministry's early reply will be appreciated."

ConGen Taipei shld discuss matter orally with Chen Cheng or other appropriate Chi official informing him of action being taken in Hong Kong and shld hand him copy of note.

ACHESON

393.115/11-3049 : Telegram

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

SHANGHAI, November 30, 1949—5 p. m.

[Received November 30—8:49 a. m.]

4992. Consulate General observes with increasing concern attacks by Chinese Nationalist warships on American merchant ships. In the case of the *Flying Cloud*, which was heavily fired on November 15 and the *Sir John Franklin* which was similarly attacked on November 28, the fact that no casualties occurred can only be attributed to good fortune. While fully realizing that the Department has already taken clear position that ships' owners and masters bringing ships into Shanghai do so on their own responsibility, Consulate General raises for Department's consideration the question whether now that American lives have been in great actual danger, some stronger discouragement to the entry of ships would not be advisable. Consulate General understands that no reply received from Chinese Government in answer to US protest of firing on *Flying Cloud*, and it is apparent that no orders have been issued to Chinese warships to stop attacks on American merchant ships. Possibly no responsible Chinese Government in existence with authority to enforce such orders if issued. In view of fact that protest re attacks on *Flying Cloud* were ineffective in preventing heavier attack on second American ship, it may be expected that Nationalists will be further emboldened if no effective deterrent found. As a means of preventing loss of American lives, Consulate General believes that unless the US Government is prepared to protect American ships from attack or bring such pressure to bear on Nationalist Government as would ensure their safe passage American shipping companies should be impressed with serious danger involved in entering Shanghai, and at least urged to consider carefully desirability of postponing further ship calls here in absence safe conduct until armed interference withdrawn. Particularly blockade runners should hesitate to take passengers. Of immediate concern is the outward voyage of *Sir John Franklin*, scheduled to leave Shanghai about December 6. Entry of this ship in defiance of all efforts by Nationalist warships to prevent it would seem to make it more likely that an all-out effort will be made to prevent her escape. Re Deptel 1927 [1929] September 20, Consulate General proposes to warn prospective American passengers of grave risks to be anticipated if ship again proposed to defy Nationalist war vessels.

McCONAUGHY

393.115/12-249 : Telegram

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

SHANGHAI, December 2, 1949—5 p. m.

[Received December 2—5 : 56 a. m.]

5036. Re ConGentel 4977, November 29, attack on SS *Sir John Franklin*. Following eyewitness description first part of incident received from British frigate *Cardigan Bay*. Report received from British Admiralty Office, Hong Kong, through British Naval Attaché, Shanghai:

[“*Cardigan Bay* reports US ship *Sir John Franklin* passed Kiu-toan at speed and disregarded order to stop. Fired on and hit at least 3 times by 3-inch shells. *Tai Ho* gave chase but radar indicated that she gave up just short of middle ground buoy. Consider Chinese acted with restraint as only opened fire after *Franklin* blatantly ignored 2 demands to stop and was well past guardship who was slow in getting under way. *Franklin* passed within 1 mile of 2 destroyers who could [have] overwhelmed her had they wished to stop her regardless of consequences. Only about 4 rounds observed from *Cardigan Bay* of which 3 hit ship and possible Starr-shell when out of sight.”]

It will be noted that British Admiralty account differs from report of master *Sir John Franklin* in that British allege Chinese warship twice demanded *Sir John Franklin* to stop and in stating that Chinese warship acted with “restraint”. Our Naval Attaché inclined to agree with British Admiralty that unless marksmanship of destroyer incredibly bad they could easily have sunk or immobilized *Sir John Franklin* had they been determined so to do.

Use of word such as “blatantly” in this context by commanding officer *Cardigan Bay* would seem to indicate certain bias on his part, detracting somewhat from appearance of absolute objectivity desirable in report of this nature.

Consulate General endeavoring to clear up confusion as to whether one or two warnings given American ship by Chinese warships.

MCCONAUGHY

393.115/12-249 : Telegram

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

WASHINGTON, December 2, 1949—8 p. m.

TelCan 781. [For Chargé Strong:] Request you most urgently obtain appointment with FonMin and inform him orally along fol lines:

“US Govt has been informed that the *Sir John Franklin* is scheduled depart from Shanghai on Dec 6. In view attack made on *Sir John*

Franklin as the vessel proceeded into Shanghai Nov 28 US Govt seriously concerned, in the absence of Chi Govt's reply to its note of date (telCan 774, Nov 30) or other assurances to contrary, that repetition this attack might occur, in which event Amer lives and property will again be endangered. In order to preclude any possibility of such an incident which, as Chi Govt will undoubtedly understand, might result in serious difficulties between the two Govts, the US Govt requests and expects assurances from the Chi Govt that the *Sir John Franklin* will be permitted depart from Shanghai and proceed on its course for its next port of call without any action by Chi Navy which wld endanger Amer lives and property.

In view urgency of matter it is requested that Chi Govt immediately issue appropriate orders to Chi Navy and inform US Govt thereof by Dec 5."

At Chargé's discretion foregoing may be made text of *aide-mémoire* to be handed FonMin.

ConGen Taipei is requested urgently bring matter attention Chen Cheng informing him of action being taken by Chargé and leaving with him copy *aide-mémoire*. Chen should be requested to assure prompt communication to Admiral Kwei.

ConGen Shanghai should not of course inform Master of *Franklin* of foregoing but in reply to Master's request for instructions (Shanghai's 5014, Dec 1¹⁷) Master should be told that in ConGen's opinion he would be well advised depart Shanghai without cargo or passengers; that, however, the final decision is of course one for Master himself to make.

ACHESON

393.115/12-349: Telegram

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

HONG KONG, December 3, 1949—11 a. m.

[Received December 3—3:25 a. m.]

Cantel 1320. Note as quoted telCan 774, November 30, delivered Foreign Minister Yeh December 2.

In comment, after reading note, Yeh merely inquired as to what company owned *Sir John Franklin* and stated he was waiting for full report from Chinese Navy, which normally would be made to Waichiaopu¹⁸ in Chengtu.

Yeh then referred to case of *Flying Cloud* (Cantel 1315, November 29); said he had telephoned Tso Ying and spoken with a Commodore Kwei, who stated *Flying Cloud* had not been hit but 3 warning

¹⁷ Not printed.

¹⁸ Chinese Foreign Office.

shots had been fired across bow, and vessel had ignored them and kept on going. Yeh said he expects full written report shortly.

Understand US Navy has report from British Navy regarding *Sir John Franklin* incident which said to be at variance with facts as stated by master. Report made by British naval vessel at scene of action.

Sent Department Cantel 1320; repeated Taipei 232, Hong Kong by hand.

STRONG

393.115/12-449 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, December 4, 1949—5 p. m.
[Received December 4—6 : 11 a. m.]

768. Deptel 512, December 2¹⁹ received last night. Due urgency situation message delivered by me direct to Admiral Kwei at 2 p. m. today instead of to Governor Chen. Admiral Kwei assured me that orders would be telegraphed immediately to appropriate naval authorities Shanghai area to allow *Sir John Franklin* safe passage out of Shanghai waters.

On morning December 2 accompanied by Assistant Naval Attaché Gabbert²⁰ I delivered message contained in Deptel 499, November 30²¹ at which time Kwei expressed regret for incident and assured us that US vessels would be allowed proceed Shanghai safely at any time we wish to take supplies to our personnel or evacuate US Government officials.

Sent Department; repeated Shanghai 323.

MACDONALD

393.115/12-549 : Telegram

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

HONG KONG, December 5, 1949—2 p. m.
[Received December 5—6 : 47 a.m.]

Cantel 1324. *Aide-mémoire* delivered Foreign Minister Yeh morning December 5. Yeh immediately placed telephone call to Admiral Kwei Yung-ching at Taipei, finally speaking with him at 12 : 30 p. m. (telCan 781, December 2, repeated Shanghai 2666, Taipei 512.)

¹⁹ See telCan No. 781, p. 1178.

²⁰ Lt. Col. John T. L. D. Gabbert.

²¹ See telCan No. 774, p. 1175.

According to Yeh, Kwei acceded to his request that *Sir John Franklin* be allowed depart Shanghai unmolested in view of representation by US Government.

Previously Yeh asked what cargo and passengers ship was carrying from Shanghai. We claimed ignorance but reminded him crew of over 40 were Americans.

Sent Department Cantel 1324, repeated Shanghai 576, Taipei 234, Hong Kong by hand.

STRONG

393.115/12-549 : Telegram

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

HONG KONG, December 5, 1949—3 p. m.

[Received 9:32 p. m.]

Cantel 1325. On December 5 Foreign Minister Yeh read telegraphic report from Chinese naval headquarters regarding *Flying Cloud* incident (Cantel 1315, November 29) roughly translated as follows:

“Vessel was signaled warning and was asked for ‘details’, whereupon it dropped anchor at Kiutoan Spit. Chinese naval vessel then signaled that ship in Chinese territorial waters when no longer open to foreign shipping. Before reply received from *Flying Cloud* tide rose, ship hauled anchor, and got under way. Naval vessel hoisted flag to warn ship not move but ship did not reply. Naval vessel forced open fire, with ‘blanks’, which fired 3 times. Then to prevent ship from proceeding fired on line 50 yards ahead of bow, but ship continued and sailed into barrage. Ship possibly damaged. Further details being air-mailed.”

In further conversation Yeh said he wanted no danger to US lives and thought best thing “to aim at rudder”. We pointed out this might involve further incidents which were most undesirable.

Sent Department Cantel 1325; repeated Shanghai 577, Taipei 235, Hong Kong by hand.

STRONG

393.115/12-649 : Telegram

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

WASHINGTON, December 6, 1949—7 p. m.

2381. Reurtel 1091 [5091], Dec 6.²² Dept still believes inadvisable pass any portion Taipei’s 768 either to Isbrandtsen’s agent or master

²² The Consul General reported that “Master SS *Sir John Franklin* apparently determined to bull his way through on departure from Shanghai notwithstanding risks involved”.

inasmuch as any breach of confidence might endanger US position re port closure order.

Request you immed contact master *Franklin* and strongly recommend that in departing Yangtze he observe all signals from Chinese Naval vessels. Inform master US Govt has made protest to highest auths ChiGov and as result expects that *Franklin* will be permitted exit Yangtze without interference from Naval vessels with possible exception of routine challenging and possibly boarding. Point out to master that while there is a reasonable expectation that this will be the case he should not act presumptuously or precipitantly, or in such manner otherwise as would endanger life and property safety of which his command makes him responsible; that, as master of vessel flying Amer flag, he shld exercise all prudence to avoid provoking otherwise avoidable incident. You shld point out to master that *Franklin* is not in position of vessel in innocent passage through territorial waters but instead is proceeding from inland waters to high seas, and therefore, subject to interference incident to ordinary navigation.

At your discretion give him to understand that reports from responsible observers of his entrance on Nov 28 that have reached Wash are somewhat at variance with master's statement that no warnings were given by the Naval vessel prior to its opening fire.

ACHESON

393.115/12-849 : Telegram

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

SHANGHAI, December 8, 1949—4 p. m.

[Received December 8—7 : 24 a. m.]

5132. Deptel 2381. Capt. Hardy, master SS *Sir John Franklin*, has been seriously cautioned by Consul General personally in sense indicated by Department in reference telegram. In addition paraphrase Consul General remarks signed by Consul General has been handed to master and to Capt. Crinkley, Far East representative Isbrandtsen Co. Master has given categorical assurances that he will comply with any signals from Nationalist warships and will not take any action which might be construed as reckless or imprudent. It has been verified that ship will be able anchor in shallowest portion Yangtze estuary channel without danger going aground. Master acknowledges that he will have no basis for giving danger of going aground as excuse for defying warship.

Ship now scheduled depart Shanghai 0800 local time December 9.

MCCONAUGHY

393.115/12-849: Telegram

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, 8 December 1949.

MY DEAR MR. SECRETARY: You will recall that several Isbrandtsen Company vessels have recently visited Shanghai and that all have been intercepted and delayed by Chinese Nationalist naval patrol craft, three under alleged threat of violence and two by reported shelling.

In the case of the merchant vessel *Flying Independent* of the Isbrandtsen Company, the Department of State stated on 16 September 1949²³ the policy of the United States Government to be (a) nonrecognition of the Chinese Nationalist Government's purported blockade of Chinese ports, and (b) not to convoy commercial shipping into Shanghai or other Chinese ports; and that the Department of State considered the decision to move vessels into Chinese ports to rest entirely with the shipping companies and masters.

Since the case of the *Flying Independent*, the Navy has received several appeals from the Isbrandtsen Company to provide protection for its ships in Chinese waters.

The National Security Act of 1947 (P.L. 253, 80th Congress), Sec. 206, subparagraph (b), states in part that "the Navy shall be generally responsible for . . . and protection of shipping."²⁴

Nevertheless the Department of the Navy, in accordance with the stated desire of the Department of State, has taken no action with naval forces to assist the several Isbrandtsen ships in their reported difficulties with Chinese naval patrols.

While being aware that an effective "port closure" by the Chinese Nationalist Government would assist the anti-Communist forces in China, it is the understanding of the Department of Defense that one of the primary reasons the United States did not recognize the declared closure of certain ports is because the Chinese Nationalist Government, at the time of the declaration, did not have actual control of the ports declared "closed". The responsibilities of the Department of Defense in the premises, however, would not appear to have been altered thereby.

In addition to the responsibility to protect United States shipping, as has been indicated above, the Department of State will appreciate that all components of our military forces have the fundamental responsibility to support United States policy, and other obligations such as the protection of American lives and property.

²³ See telegram to the Isbrandtsen Co., quoted in telegram No. 939, September 16, 8 p. m., to the Consul General at Hong Kong, p. 1133.

²⁴ Approved July 26, 1947; 61 Stat. 495, 502; omission indicated in letter.

Anticipating future similar situations, it is considered that the following factors may make more difficult the discharge of those responsibilities:

- (a) The apparently successful visits of some ships may encourage similar visits by the same or other shipping companies;
- (b) The ability of United States commercial interests to negotiate with the Chinese blockading units as well as with appropriate Communist port authorities will undoubtedly vary with the fortunes of the Chinese Nationalist Government;
- (c) The infiltration of Communists into the Chinese Navy renders more probable a Communist-engineered incident to promote violence against American interests; and
- (d) The Nationalist control of the Yangtze estuary may be effectively challenged by the increasing Communist sea and air power, further confusing the problem.

The purpose of this letter is to invite the attention of the Department of State to the anomalous position in which the Department of Defense is placed and the need for policy clarification, and to the possibility of claims for damages against the United States Government by the Isbrandtsen Company. It is believed that a solution to the problem which would be satisfactory from the military point of view would be for steps to be taken to have the *de facto* blockade regularized.

Sincerely yours,

LOUIS JOHNSON

393.115/12-949: Telegram

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

HONG KONG, December 9, 1949—3 p. m.
[Received December 9—7:33 a. m.]

Cantel 1331. Foreign Minister Yeh on December 8 stated Chinese Navy and CAF were permitting SS *Sir John Franklin* (Cantel 1324, December 5, repeated Taipei 234, Shanghai 576) leave Shanghai unmolested only as an exception at US request; not to be regarded as precedent; Chinese Navy considerably incensed at Isbrandtsen.

Sent Department Cantel 1331, repeated Shanghai 579, Taipei 239, Hong Kong by hand.

STRONG

393.115/12-949: Telegram

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

SHANGHAI, December 9, 1949—4 p. m.
[Received December 9—6:55 a. m.]

5147. Isbrandtsen ship *Sir John Franklin* sailed from Shanghai December 9 at 0830 hours local time en route Pusan [Korea]. Two mes-

sages later received from ship. First message sent at 1121 hours stated a DE ahead at Foo Ching buoy had ordered ship to anchor and lower ladder and that master was complying. Second message sent at 1218 hours stated ship had been boarded, cleared and was proceeding on journey. All local time given.

Before leaving Shanghai Capt. Crinkley, Far East representative Isbrandtsen Company, expressed opinion company should not attempt bring more ships into Shanghai under present conditions. A. P. Pattison, Shanghai agent for Isbrandtsen, also feels unwise attempt further entries.

Sent Department 5147, repeated Taipei 544, Hong Kong 1159.

McCONAUGHY

393.115/12-1149 : Telegram

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

HONG KONG, December 11, 1949—1 p. m.

[Received December 12—6:29 a. m.]

Cantel 1332. Following letter dated December 9 received December 10 from Special Commissioner of Chinese Foreign Office, Hong Kong:

“With reference to the American Embassy’s *aide-mémoire* No. 346, dated the 5th of December, 1949,²⁵ the Ministry of Foreign Affairs desires to inform the American Chargé d’Affaires that instructions have been issued to the Chinese Naval authorities to permit SS *Sir John Franklin* to depart from Shanghai and proceed on its course for its next port of call. This special permission is only given at the request of the US Government and should not be taken as having established a precedent. As the Isbrandtsen Company has in the past made deliberate attempts to violate Chinese Government order of closure, it is requested that the American Embassy will, in view of the friendship between China and the US of America, take steps to give the company warnings against repetition of such attempts.”

Sent Department Cantel 1332, repeated Taipei 240, Shanghai 580, Hong Kong by hand.

STRONG

893.801/12-1349 : Telegram

The Consul at Taipei (Edgar) to the Secretary of State

TAIPEI, December 13, 1949—9 a. m.

[Received December 13—12:36 a. m.]

807. Following note marked confidential delivered Dec. 12 by special commissioner for Foreign Affairs for Taiwan:

“Reference is made to a notification issued on June 20, 1949, by the

²⁵ See Cantel No. 1324, December 5, p. 1180.

Minister of Foreign Affairs of the Chinese Government to the various foreign governments to the effect that the area and ports within the sphere of the territorial waters along the coast line from the mouth of Liao River in the northern part of China, i. e. 122 degrees 20 minutes east longitude and 40 degrees 30 minutes north latitude to the north of the mouth of the Min River, i. e., 119 degrees 40 minutes east longitude and 26 degrees 15 minutes north latitude, were to be temporarily closed and that the entry of foreign vessels into the territorial waters shall be strictly forbidden. In addition, the Chinese Government issued a mandate announcing that, effective June 26, 1949, at zero hour, foreign vessels violating this order shall be suppressed and that they shall assume responsibilities themselves for any consequences in case of violation of such an order.

"Subsequently, the Chinese Government repeatedly notified the various foreign governments announcing the extension of the closure area from the north of the mouth of the Min River, i. e., 119 degrees 40 minutes east longitude and 26 degrees 15 minutes north latitude, southward to the west of Tienpai hsien, i. e., 111 degrees 20 minutes east longitude and 21 degrees 30 minutes north latitude, of which the record is on file.

"The Chinese Government notes with regret that, after the closing of the aforementioned ports and territorial waters by the Chinese Government, a small number of foreign merchantmen have ignored this order and some have even met with incidents.

"In order to avoid such incidents, the Chinese Government has now decided that any American registered vessel now remaining in the above-mentioned territorial waters and ports, or their vicinities, shall be instructed promptly to leave such waters and ports within 1 week of grace beginning December 12, 1949. The military authorities of the Chinese Government will be pleased to afford such vessels safe conduct so as to avoid unnecessary risk; this does not apply to those which attempt to enter such areas.

"Ever since the proclamation of the closure of the designated ports and territorial waters the Chinese Government has time and again advised the various foreign governments that foreign vessels shall assume their own responsibilities for any consequences in case of the violation of this order. With a view to tightening this order, henceforth the Chinese Government will take such effective measures, as may be deemed necessary. Any foreign vessels which, in violation of this order, should hit any mine, sustain any damage and losses, or encounter any risk, obviously must assume responsibility themselves.

"It would be greatly appreciated if you would promptly transmit the substance of the foregoing to your government and bring the matter to the attention of the American shipping circles."

Sent Department 807, repeated OffEmb Hong Kong 225.

EDGAR

393.115/12-1649 : Telegram

The Secretary of State to the Ambassador in Korea (Muccio)

WASHINGTON, December 16, 1949—11 p. m.

1058. Dept understands Isbrandtsen vessel *Flying Arrow* sailed from Manila 0830 hours Dec 12 cleared for Okinawa, Pusan, Taku Bar

and Shanghai. Upon vessel's arrival Pusan, request Master *Flying Arrow* be handed full text fol:

"The Department of State has issued the following announcement which has been transmitted to all shipping companies, ship operators and ship masters via the Hydrographic Office and the Maritime Comm.

'On November 28, 1949 the *Sir John Franklin*, a US flag ship, while proceeding to the port of Shanghai was subjected to a barrage of fire from two Chinese naval vessels in the lower estuary of the Yangtze, damaging the vessel and seriously endangering life aboard it. Although the vessel was permitted to leave Shanghai unmolested, the Chinese National Government stated that the fact that the vessel was so permitted to leave should not be regarded as a precedent.

The Department of State must point out that the port of Shanghai and its approaches constitute a zone of danger and the conditions in it are such as to render this area extremely hazardous to shipping. In view of this situation, it is obvious that American lives and property should not be exposed to such risks and all masters of United States flag vessels are warned accordingly.'

In addition Emb is instructed to accompany the delivery of the general warning with the following written statement for the Master to be delivered by a Consular Officer in the presence of witnesses:

"At the direction of the Secretary of State, I am instructed to inform you that the Coast Guard has advised that violation of this warning will render licenses of Masters of United States flag vessels liable to action under R. S. Section 4450."

Hydro Office and Maritime Commission circulating above quoted general warning all Amer ship owners, operators, and Masters. Advise Dept immed when delivery effect.

Pls pass this msg to Pusan.

ACHESON

893.83/12-1949

Memorandum of Telephone Conversation, by the Acting Deputy Director of the Office of Chinese Affairs (Freeman)

[WASHINGTON,] December 19, 1949.

Mr. Tsui²⁶ telephoned this morning to pass on to the Department a verbal message from Ambassador Koo relating to further enforcement of the Chinese "port closure" order. He stated that a telegram from the Chinese Government at Taipei had been received to the effect that, beginning at zero hours, December 21 of this year, all Chinese territorial waters and ports heretofore declared closed by the Chinese Government will be mined.

I inquired of Mr. Tsui whether the Ambassador had received any additional clarification of the term "mined" but Mr. Tsui answered in the negative. He stated that his report should be considered as

²⁶Tswen-ling Tsui, Counselor of the Chinese Embassy.

secondary information inasmuch as the primary information had apparently been given to our Consulate General at Taipei. He also stated that, as the Embassy's telegram had been received in the Chinese language, it might be misleading for him to endeavor to give any further interpretation of the message which might conflict with the phraseology which the Chinese Government used in communicating with our Consulate General at Taipei. Mr. Tsui assured me, however, that he would endeavor to obtain further clarification and would pass on to me any additional information on the subject which he received.

702.0093/12-2949 : Telegram

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

SHANGHAI, December 29, 1949—5 p. m.

[Received December 29—9:40 a. m.]

5442. Italian Consul General Rossi, with mild support from a few colleagues, continues to press for collective action by Consular body to obtain some measure of relief for foreign community from stifling effects of Nationalist blockade of port of Shanghai. Rossi argues that various communities of Western nationals here look to their Consuls, as in certain sense leaders of their respective communities, for effective action, and are inclined to blame them for inaction. He is also motivated by extreme urgency of cases several foreign nationals trying to leave Shanghai whose cases considered urgent on medical, financial, psychological or family grounds. Rossi is also guided to some extent by desire to infuse new life into Shanghai Consular body, which is relatively inactive in face of animosity and non-acceptance by local authorities and the somewhat negative leadership of senior Consul, who is Swiss Consul General A. Koch. Rossi recognizes that the unique position enjoyed by Consular body during extraterritorial days cannot be restored, but he believes that a positive and imaginative step aimed at obtaining a measure of relief from blockade would regain at least a shadow of the past glory of the Consular body and strengthen the prestige of the corps with the local authorities and with the foreign communities.

Accordingly, Rossi has induced Koch to call special meeting of Consular body for January 5, for purpose of considering a resolution that those responsible for blockade be approached with view to effecting some relaxation as humanitarian gesture. A resolution along these lines sufficiently circumspect to avoid offending either side, while it would in itself achieve no tangible results, would do no harm and

might exert a somewhat useful indirect influence. If properly drafted, it would also tend to put the problem in better perspective by bringing out the joint responsibility of the two contending factions for the plight of the foreign community here.

I should appreciate instructions not later than January 3, Washington time, as to whether I should vote at meeting of Consular body on January 5 in favor of discreetly worded non-controversial resolution pointing to need of travel means for foreign nationals desirous of leaving China and recommending extension of Good Offices by all authorities concerned to facilitate legitimate travel such foreigners (see ConGentel 5441, December 29²⁷).

McCONAUGHY

893.83/12-2949 : Telegram

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

WASHINGTON, December 29, 1949—6 p. m.

1659. Following warning issued by Dept Dec 29 being transmitted by Hydro Office and Maritime Commission to all US shipping companies, operators, and Masters:

"The Dept of State has been informed by the Chi Govt that the approaches to the Yangtze River and Shanghai have been mined within Chi territorial waters. Furthermore the Dept of State has been informed that, due to the manner in which the mines have been laid, no channel has been left open and that the only way to move vessels in and out would be to sweep the mines.

US shipping companies and masters who contemplate movements of vessels into the area are warned accordingly."

Request foregoing warning be handed Master *Flying Arrow* by Consular officer in presence of witnesses.

ACHESON

893.00/12-3049 : Telegram

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

WASHINGTON, December 30, 1949—9 p. m.

2519. Urtel 5442 Dec 29. Established policy this Govt take no action which wld have effect lessening effectiveness Nationalist "blockade". But wld be embarrassing if you only consular representative Shanghai opposing or failing sign res purporting to be motivated purely humanitarian considerations. Dept desires you exert ur influence vigorously

²⁷ *Post*, p. 1362.

possible have res confined specifically need for community on strictly humanitarian grounds freedom depart Shanghai and, from time to time, means travel do so well as means receive and send mail and receive urgently needed medical and related supplies.

If res confined lines suggested Dept wld have no objection ur supporting it. Case doubt refer text Dept urgent consideration.

ACHESON

793.00/1-650 : Telegram

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

SHANGHAI, January 6, 1950—4 p. m.
[Received January 6, 1950—1:17 p. m.]

93. Re Deptel 2519, December 3 [30]. Consular Body meeting to consider relief for foreign community from effects blockade. With assistance from Canadian colleague and others I was able to steer discussion at meeting January 5 so as to avoid any mention of issue of general relaxation of blockade. Also used my influence to have a minute as to sense of meeting entered in records as substitute for formal resolution.

Minute as drafted by committee of three including myself and unanimously approved by Consular Body read as follows:

“The discussion of resolution proposed by Dr. Rossi regarding plight of foreigners in Shanghai due to closure of port, made it clear that all members of Consular Body were gravely concerned over this problem and had been keeping their governments fully informed. It was agreed that minutes should record gratification which Consular Body felt at assurances given by members that they would continue represent to their governments urgent need of securing from authorities concerned assurance that provision would be made for foreigners in Shanghai freely to leave country, and for medical and other relief supplies to be brought in.”

This would appear to meet Department's stipulations contained in ref tel and will enable each consul to inform his government that gravity of problem is confirmed by unanimous endorsement of this statement by Consular Body.

Reference last sentence to “authorities concerned” aimed more at Communist regime than Nationalists since Communists could readily provide relief if they wished to do so by permitting rail travel from Shanghai to Tientsin and/or Canton from which points transportation out of China is available. Assumption is that diplomatic and consular representatives of recognizing governments will soon be able to make effective representations to Communist authorities re exit of all foreign nationals desiring to leave, including those owing allegiance to non-recognizing governments.

McCONAUGHY

WITHDRAWAL OF UNITED STATES NAVAL FORCES FROM TSINGTAO ¹

811.3393/1-449 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 4, 1949—11 a. m.

[Received January 4—1:59 a. m.]

1. Admiral Badger ² yesterday indicated he setting January 25 target date completion withdrawal shore based forces Tsingtao. This is date arrival last transport required lift Marines. Actually no loading can be commenced until CNO ³ issues redeployment orders which not yet received. Balance of Guam 9th Marines departed January 3, stripping of air base commenced.

As result almost open discussion of withdrawal by some Naval and Marine officers, withdrawal is now open secret Tsingtao, only the date a matter of speculation. British Consulate General January 3 advised heads of first Marines leaving within 10 days. Result has been rush of American, other civilians this office which necessarily stated had no official information imminent withdrawal but suggested that those not intending remain regardless leave soon.

Badger still expressing desire retain recreation facilities as here Tsingtao such as Edgewater, Officers Club, Enlisted Men's Club, YMCA. Has not brought this matter to attention CNO, may drop it in face opposition of Chief Staff, other members staff. Suggest this question be specifically included next directive view complications which may arise if matter left his decision.

Viewed only locally, there is now no reason for delaying announcement decision withdraw near future. Such public statement would ease Consulate General's current embarrassment.

Sent Department; repeated Nanking as 3.

STRONG

¹ For previous correspondence regarding United States naval forces at Tsingtao, see *Foreign Relations*, 1948, vol. VIII, pp. 307 ff.

² Vice Adm. Oscar C. Badger, Commander, U.S. Naval Forces in the Western Pacific (ComNavWesPac).

³ Chief of Naval Operations (Denfeld).

811.3393/1-649 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 6, 1949—11 a. m.

[Received January 12—11:35 p. m.]

8. Remytel 1, repeated Nanking 3, January 4. Badger visited by Mayor and Chinese Army Commander here January 4 reference departure naval forces. These visits plus widespread rumor in Tsingtao among foreigners as well as upper class Chinese and merchants, led him to make press statement (in today's newspaper) no question of withdrawal, US Navy will maintain adequate forces in Western Pacific including Tsingtao, other Chinese waters. Stated had ordered Marines cease discussions reference return Marine compound to Shantung University which begun after recent request by Minister Education.

Understood CNO has just queried Badger reference press statement credited Marine sources that Marines to be withdrawn. Badger now recognizes premature action taken which should have awaited clarification redeployment plans and decision on timing announcement. Actions such as 30 day notices on practically all Navy leased property led officers and men to talk freely and gave information to Chinese that move would be made within month.

Badger, January 5, requested me inform Americans and British Consul General (who to advise British subjects) that redeployment forces ashore not mean Navy abandoning Tsingtao; when more protection can be given foreign lives, property, by floating force; Tsingtao will be used as main anchorage naval force with recreation facilities under his control ashore; he will give ample public warning should forces abandon Tsingtao and will then carry civilians to safety.

Have agreed pass this information informally as opportunity offers but have instructed Consulate General staff preface such remarks with words "Admiral Badger says". Consul General is still embarrassingly "in the middle". Still suggesting those Americans, not intending remain permanently, leave early date.

Badger has alerted shore based forces for 15 day move onto ships on signal.

Sent Department; repeated Nanking 12.

STRONG

811.3393/1-1149: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 11, 1949—11 a. m.

[Received January 10—11:42 p. m.]

17. CNO telegram January 9 to ComNavWesPac implies 10-day move of forces ashore to ships imminent. Expect rebase aircraft Cherry Point. Tsingtao Marines Camp Pendleton after 10 to 20 days afloat here. Shanghai Marines remain temporarily. Intent avoid indication Tsingtao to be more prominent anchorage than other China ports.

Although Badger able make 10 day move, much equipment would be abandoned. Thus quietly commencing certain loading enable him comply 10 day move without losses. Still plans retain retreat facilities ashore but probably abandon Edgewater, retention of which would create controversy with local Chinese.

Consulate General plans cancel lease present building, move into port facilities administration building before abandoned by Navy, will move CA [CG?] to same building after Navy withdrawal if Officers' Club retained by Navy.

Consulate General urgently requires decision reference guards, other employees (remytel 408 to Embassy, repeated Department 240⁴).

Sent Department, repeated Nanking 18.

STRONG

893.00/1-1549: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 15, 1949—7 p. m.

[Received January 15—11:55 a. m.]

31. January 15 Generalissimo⁵ through Barr⁶ recently sought information Navy plans [on] grounds determine whether reinforce troops here. Badger refused information, referred query Chief Naval Operations, stating useless reinforce Nationalist garrison; additional troops create only greater threat of disorder, looting.

⁴ Not printed.

⁵ President Chiang Kai-shek.

⁶ Maj. Gen. David G. Barr, Director, Joint United States Military Advisory Group in China (JUSMAG).

Consul General considers withdrawal bulk Nationalist troops here preferable to reinforcement. Fewer Nationalist troops here, more orderly will be inevitable Communist take-over.

Sent Department, repeated Nanking 32.

STRONG

811.3393/1-1749 : Telegram

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

NANKING, January 17, 1949—8 p. m.

[Received 8 p. m.]

129. Admiral Badger came to town this week end. Shortly after his arrival I received word that Generalissimo wanted to see him. We called at 2 Sunday afternoon. Generalissimo asked Badger about plans of US Navy in Tsingtao: Whether it was staying or leaving. Badger handled interview well.

With respect to movement of planes from shore to carriers, he said that this was being done to avoid any possible incident with Chinese during these critical times and as part of winter program; and that men and equipment are being readied for transfer to vessels. He left impression that US Navy might withdraw entirely from Tsingtao but emphasized that this was policy decision which could only come from Washington. Interview was brief and Generalissimo did not ask Badger's views regarding [re]reinforcement Tsingtao garrison by National troops (see Tsingtao's 31, January 15 to Department).

Generalissimo made no comment on Badger's replies. Although affable and friendly as usual, he looked more haggard and worried than I have seen him in some time.

Tsingtao pass ComNavWesPac your discretion.

Pouched Tsingtao.

STUART

811.3393/1-2049 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 20, 1949—noon.

[Received January 20—4: 26 a. m.]

36. January 20 "Blue Flag" telegram from CNO to Badger received recently stated probability gradual withdrawal Marines begin February reduce to battalion which remain ashore 2 to 3 months, recreation facilities and YMCA be continued, administrative unit and shore patrols remain ashore. Badger appears react favorably foregoing. If Marine battalion remains, expect will occupy US Government-owned

naval barracks, 1 Kuangsi Road. Air base rapidly being stripped to operate only four transports, escort carrier arrived today replace Marine fighter squadron. Main problem now destination shore based naval equipment supplies for which most of required shipping now here, remainder due shortly.

Consul General believes local conditions favorable retention battalion ashore approximately 2 months. Also would meet local need as outlined final paragraph mytel 401 to Embassy, repeated Department 234, December 23.⁷ However, relatively clean break in nature of removal all other Marines and shore based naval establishment not essential support battalion and recreation would seem preferable to gradual reduction standpoint local recreation, easing Navy logistics problem, readiness for final loading should events here move more rapidly than anticipated.

Only one American clerk now on duty Consulate General. View necessity employ slow Department's strip cipher, please advise whether this and previous similar telegrams reference naval activities here and communications between Badger and Navy Department duplicate information otherwise available.

Sent Department 36, repeated Nanking 41.

STRONG

811.3393/1-2549 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 25, 1949—11 a. m.

[Received January 25—1:36 a. m.]

44. Based on directives from CNO received January 22 and 23, Adm. Badger January 23 ordered subordinate commands as follows (summary): Marine ground units commence embarking 27, complete loading February 7 except 200 men to be barracked 1 Kuangsi Road (naval barracks) as military police; Marine air base operations including GCA⁸ equipment January 31, complete embarking February 7; sea planes base intended use shore ramp only if directed; naval shore facilities which included USMAG reduced by February 7 to small recreation unit plus maintenance and transport to operate officers' club, enlisted men's club and barracks all remaining shore based units to be prepared speedy evacuation if ordered; additional company Marines remain Tsingtao barracked on transport, thus total 500 Marines remain here ashore and afloat; Marine fighter base on escort carrier which will remain Badger's control until released by him; ship based Marines

⁷ *Foreign Relations*, 1948, vol. VIII, p. 342.

⁸ Ground Control Approach.

except one company mentioned above will remain here only temporarily; 9th Marines at Shanghai remain there based on transport.

CNO directed 150 artillery men to Guam, bulk Marine ground forces to Camp Pendleton, bulk air transport complement to Cherry Point.

Lease on Shantung unit [*Univ.?*] compound to be cancelled 1 month's notice when shore to ship move begins. Edgewater closing January 31 to be returned to railway authorities from whom leased. YMCA to continue functioning.

Badger forbidden by CNO make public statement on move, publicity to be handled by State and Navy Departments. He feels statement essential at time move begun (January 27), otherwise press will print story US now completely abandoning Tsingtao. From local point view, I concur statement regarding reduction desirable to minimize disturbances by elements which according Provost Marshal have past week created increasing number incidents including large melee near enlisted men's club early evening January 23.

Repeated Nanking 43.

STRONG

811.3393/1-2549 : Telegram

The Secretary of State to the Consul at Tsingtao (Strong)

WASHINGTON, January 26, 1949—9 p. m.

42. Dept understands (Contel 44 Jan 24 [25]) Navy has forwarded Adm Badger material for use in connection any publicity re withdrawal.

ACHESON

811.3393/2-249 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, February 2, 1949—noon.

[Received February 2—5:55 a. m.]

61. Remytel 58 to Dept January 31,⁹ repeated Embassy 56. Yesterday discussed with Admiral Badger future position Marines ashore, vessels at anchor, Tsingtao, as training anchorage shore liberty area.

In my opinion, Marines (some 200 ashore, 300 on transport at piers) primarily moral force with calming effect incipient trouble if used in mobile patrols cooperation with Chinese police and military police; at beginning Nationalist withdrawal should consult closely police (who expected remain at posts) and Chinese military commander on meas-

⁹ Not printed.

ures keep order, maintain discipline Nationalist troops. As turnover occurs Marines in delicate position but doubtful Communists create incident view fact Marines aiding them take over orderly fashion, should be withdrawn soonest when order assured or unable cope widespread disorder. Timing withdrawal should remain judgment senior officer on spot and Consul General.

Re vessels, desirable retain several as haven for civilians if required, also as moral effect. Presence carrier and air activity to [too] calming effect.

Expressed personal opinion use Tsingtao anchorage legal until new regime recognized *de facto* but doubt Communists agree maintenance US-controlled shore recreation facilities or even shore liberty. After recognition use Tsingtao anchorage must be by mutual agreement.

Flagship scheduled leave cruise February 10, no longer spend major portion time Tsingtao. During absence Badger, commander cruisers [and] destroyers expected be present as senior officer. All shore activities directly under control ComServron 3 with whom Consul General on best of terms.

Badger expressed no dissent my opinions, requested Consul General keep him directly informed developments after departure flagship.

Sent Nanking 61, repeated Canton 1, Department 61.

STRONG

811.3393/2-449: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, February 4, 1949—10 a. m.

[Received February 3—10:43 p. m.]

65. Remytel 61 to Embassy, February 2, repeated Canton 1, Department 61. Badger yesterday drew different picture function Marines Tsingtao. Stated only shore patrol status, would not be used protect Americans, other foreigners except by concentration or evacuation or request Embassy or Consulate General. Has authority retain them here maximum one month or approximately end February connection recreation facilities and as calming effect on reaction withdrawal others. Possibly withdraw them approximately 2 weeks. Tsingtao thus revert status of only another Chinese coastal city with naval vessels standing by for emergency.

Expect dispatch vessels Burma area view disorders there.

Shall advise US citizens USS *General Anderson* last available transport sailing about February 12. Expect other nationalities wishing evacuation will be transported Shanghai.

Sent Nanking 65, repeated Canton 2, Department 65.

STRONG

Executive Secretariat Files

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] February 4, 1949.

In accord with established procedure, I submit the following summary of action taken in the implementation of NSC 11/3:¹⁰

With respect to Paragraph 1 of NSC 11/3, an understanding was reached, following discussions between representatives of Navy and State Departments, regarding the phased reduction of shore based activities of U.S. Armed Forces at Tsingtao. (The terms of this understanding are set forth in the attached *Memorandum of Understanding Between the Acting Secretary of State*¹¹ and the *Secretary of the Navy*¹² dated January 21, 1949. Copy attached.) According to Paragraph (b) of the memorandum, completion of the reduction should coincide insofar as practicable with the completion of the withdrawal of Chinese naval training facilities from Tsingtao. It is estimated that the removal of these facilities may be completed about February 1, 1949. The Navy Department has established the following schedule for the phased reduction of activities:

(1) On about February 7 naval port facilities at Tsingtao will be reduced to naval barracks, commissioned officers mess, enlisted men's club and a small recreation department with limited maintenance and transportation facilities for the foregoing;

(2) The Marine Corps Air Force at Tsingtao will cease scheduled operations including Military Transport Service about January 31 with personnel embarking about February 7;

(3) The Fleet Air Wing detachment at Tsingtao will base the Fleet Aircraft Service Squadron afloat on a tender and from there operate the seadrome using the seaplane ramp as circumstances require;

(4) The First Marines began embarking on January 27;

(5) The Fleet Marine Force Western Pacific will be embarked by about February 7;

(6) The Third Marines as a reduced battalion landing team will remain at Tsingtao. Of the estimated 1000 men comprising this unit, an estimated 800 will be embarked in a Naval transport and estimated 200 will be quartered in shore barracks to provide an adequate shore patrol;

(7) Of 75,000 M/T (measurement tons) of useful equipment, exclusive of semi-permanent installations and excess equipment, estimated on November 2, 1948, to require lifting from Tsingtao, an

¹⁰ December 23, 1948, not printed.

¹¹ Robert A. Lovett, Under Secretary of State.

¹² James Forrestal.

estimated 42,000 M/T have now been lifted. Semi-permanent installations, such as quonset huts, will be left in Tsingtao.

It was also agreed between the Navy and State Departments that no announcement would be made from Washington with respect to the foregoing but that the Public Relations Officers of the two Departments would be prepared to meet press inquiries when they arise.

No action is required in connection with Paragraph 2 of NSC 11/3.

With respect to Paragraph 3, the existing program for training units of the Chinese Navy has been suspended and is not being reestablished on Taiwan or at Amoy.

[Annex]

Memorandum of Understanding Between the Acting Secretary of State (Lovett) and the Secretary of the Navy (Forrestal)

[WASHINGTON,] 21 January 1949.

It is mutually agreeable to the Acting Secretary of State and the Secretary of the Navy to conduct the redeployment of the U.S. armed forces shore activities at Tsingtao in the manner of a reduction rather than a withdrawal. In carrying out such a reduction, the following is acceptable:

(a) The phased reduction to begin immediately and at such rate as the Navy Department considers the logistics and other associate military matters renders necessary or advisable.

(b) No specific date is assigned for completion of the reduction. Such completion should coincide insofar as practicable with the date of completion of the withdrawal of the Chinese Naval Training Center and Chinese Naval Academy from Tsingtao. Should it become evident that the withdrawal of the Chinese Naval Training Center and Chinese Naval Academy is being unduly delayed, reduction should be continued at a rate consistent with the original estimate.

(c) When the reduction is completed, there will be retained ashore for the present in Tsingtao the necessary recreational facilities for the forces afloat, adequate Marine shore patrol from forces afloat, and barracks to house such personnel employed in connection with these activities.

(d) The personnel remaining ashore in connection with the activities mentioned in paragraph (c) above should be prepared for rapid embarkation in case of an emergency, abandoning as necessary the small amount of supplies and equipment which will be retained ashore for the support of this personnel.

(e) The reduction of the shore base activities shall be conducted in such a manner as to best avoid involvement in the fratricidal war.

811.3393/2-1449 : Telegram

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

NANKING, February 14, 1949—11 a. m.

[Received 4:40 p. m.]

384. Acting President¹³ sent for me last night to ask if departure US Navy from Tsingtao could be delayed few weeks. His reasons are that continued presence US naval base Tsingtao during critical phase peace discussions with Communists strengthens position Nationalist Government. He has reason believe Communists will not attack any Nationalist positions during this period. Nevertheless complete evacuation Tsingtao US naval forces this time would likely weaken bargaining position his government. I said I would convey his request promptly [to] my Government.

I feel we should support Acting President in any reasonable suggestion which he feels will be helpful Nationalist cause at this time. It has occurred to me ComNavWesPac might slow down to extent still operationally feasible his present move out Tsingtao so that some units US Navy will continue there over next few weeks, should Li's peace efforts be thus extended. I am not suggesting reversal policy or decisions already taken but rather extension time limit permit more deliberate withdrawal. This I believe would answer Li's purpose.

This being repeated Tsingtao for Badger who I assume will comment directly CNO.

Sent Department 384; repeated Tsingtao 32.

STUART

811.3393/3-1449 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, March 14, 1949—10 a. m.

[Received March 14—12:46 a. m.]

118. Badger planning transfer some 600 men of 3rd Marines now based Tsingtao aboard USS *Chilton* to Shanghai relieve 9th Marines after March 15. Also tentative plan for second trip south with flagship about end March whereafter no longer base flagship Tsingtao but move about freely as floating headquarters. Cruisers and destroyers also become more mobile, not consider Tsingtao main station Service squadron, with reduced number vessels remaining Tsingtao, also shore patrol of one company Marines retained in barracks on Kuangsi Road. Ex-

¹³ Vice President Li Tsung-jen, President Chiang having retired on January 21.

pect Badger devote more attention to southeast Asia view disorders there.

STRONG

811.3393/3-2949

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Webb)*

[WASHINGTON,] March 29, 1949.

Reference is made to the attached memorandum (Tab A) of January 28, 1949¹⁴ summarizing action taken as of that date with respect to the implementation of NSC 11/3 (Tab B).¹⁴

Subparagraph 6 of this memorandum states, in part, "The Third Marines as a reduced battalion landing team will remain at Tsingtao". In this connection, I am now informed by the Assistant Chief of Naval Operations as follows: "The Chief of Naval Operations directed ComNavWesPac to release on 15 March 1949, conditions permitting, the 9th Marines, less one company, now in the USS *Bayfield* in Shanghai, from their present assignment for return to the United States. ComNavWesPac has reported that the *Bayfield* with the embarked Marines is expected to sail for the United States about 31 March. This will leave the 3rd Marines, approximately 900 officers and men, in the Western Pacific as a mobile force. As you know, approximately one company is billeted ashore at Tsingtao for guard and shore patrol duty; a platoon of one officer and 42 enlisted has been, and is now in Nanking as the Embassy guard. The remainder of the battalion will be ship based. It is my understanding that the ship based Marines will remain in a mobile status in the Western Pacific but that they will not be restricted to any single locality such as Tsingtao."

The Assistant Chief of Naval Operations has given me the following additional information with respect to U.S. Naval forces in the Western Pacific:

"It is presently planned to reduce the naval forces assigned to ComNavWesPac to two cruisers, eight destroyers, one amphibious force flagship, one destroyer transport, one aircraft or seaplane tender, one destroyer tender, one tanker, one LST, one LCI, and a few seaplanes. It is anticipated that this reduction of forces will be completed about 12 May.

In this connection, Admiral Badger's instructions require that he maintain seagoing forces in the Tsingtao area adequate to embark promptly the shore based company in the event an emergency makes their withdrawal advisable."

¹⁴ Not printed.

The foregoing is brought to your attention inasmuch as the Department of State was designated coordinating agency in implementing NSC 11/3 and FE was assigned action within the Department.

811.3393/4-749 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, April 7, 1949—midnight.

[Received April 8—1:40 a. m.]

142. Badger informed Consulate General his force is being reduced somewhat by Navy Department which suggested also place Marine Shore Patrol aboard cruisers. Present plan is retain destroyer tender, repair ship, tug and LCI alongside at Tsingtao. Probable alternate hospital ship Shanghai-Tsingtao. Present number cruisers, destroyers will carry out training from Tsingtao anchorage and visit other ports in area. Seaplane tender remain Tsingtao anchorage. Badger expects retain either flagship or APA will move around area as needed, possibly with flag on cruiser. Aircraft carrier departing without replacement.

Departure other vessels will cut number of berths occupied by US Navy, which desirable in event new local regime able increase trade and shipping. Also affects somewhat emergency evacuation plans in that at Tsingtao an LCI will be available rather than LST which has much larger capacity, and Navy may be obliged abandon boats other equipment in event unexpected departure. At Shanghai passenger lift will be reduced view loss APA though expects keep two LST, one LSM available there. However, other naval shipping in area will be assigned if needed.

Reference shore patrol I expressed concurrence with concept station aboard vessels, without reference effect on vessels' operations. Badger stated new Mayor requested him leave Marines ashore. Expect decision by mid-May.

Regard Edgewater Mansions which Navy retain on lease in non-operative status, my response to Badger's query was that as summer season approaches more agitation for its release by Navy for commercial operation would appear. Local group has already brought matter attention Mayor who advised Badger he content with present status of hotel.

STRONG

811.3393/4-2649 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, April 26, 1949—11 a. m.

[Received 12:22 p. m.]

162. This week end Badger by telegram from Shanghai released his residence to Consul General, suggested armed services YMCA close at early date, expressed readiness turnover Edgewater Mansions to responsible Chinese. Thus apparently does not expect return Tsingtao.

Naval forces stationed here reducing shortly to destroyer tender, repair ship and supply ship alongside dock, MATD seaplane tender, oiler, plus cruiser, destroyer and LCI at anchorage. Small support vessels such as water and oil barges being withdrawn shortly. Naval forces here thus in condition move rapidly on short notice. Local situation not disturbing but expect power situation become acute by mid-May and food situation by mid-June. Senior naval officers uninformed any change status of Marine Shore Patrol company now billeted naval barracks or of logistics vessels at docks.

STRONG

811.3393/5-449 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 4, 1949—7 p. m.

[Received May 5—5:23 a. m.]

177. Deteriorating local conditions have led Admiral Badger eliminate completely shore establishments under Naval control except officers' and enlisted men's clubs. By May 6, force will be in condition for rapid departure without abandoning valuable equipment. Same date only destroyer tender will remain alongside docks, others at anchorage. Badger's flagship moved to anchorage today expected sail for Hong Kong few days.

Bulk of Marine Shore Patrol now shore based with one platoon on ground floor Consulate General office quarters. Consulate General took over 1 Kuangsi May 3 without serious attempts by looters to enter. Strong guard being maintained there. Edgewater Mansions being returned Chinese custody May 5. Admiral's residence Shandaikuan turned over to Consul General April 26.

Various moves mentioned apparently have created no adverse reaction in city.

STRONG

S11.3393/5-949 : Telegram

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

NANKING, May 9, 1949—8 p. m.
 [Received May 10—12: 16 a. m.]

976. In light of disastrous military efforts past 2 weeks and steady southward push Commie forces, I feel continued use Tsingtao by ComNavWesPac should be reviewed. (See Embtel 384, February 14.) According to recent reports (ComNavWesPac's 300831Z, May 1 to CNO¹⁵) Nationalist forces are being withdrawn perimeter Tsingtao defense area and reduced in number; Commies appear preparing for attack. It would seem more politic to withdraw US Navy from Tsingtao immediately rather than delay few more days or weeks and then withdraw in face of determined Commie attack. Reasons regarding earlier request of Acting President that US fleet delay departure Tsingtao have ceased to be valid. Certainly maintenance of small Nationalist enclave on Shantung Peninsula at this point will not possibly affect National Government's will, ability resist in south China.

STUART

S11.3393/5-1349

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 13, 1949.

Participants: Admiral Wooldridge,¹⁶ USN
 Captain Hummer,¹⁷ USN
 Mr. Butterworth, FE
 Mr. Stuart,¹⁸ CA
 Mr. Sprouse, CA

During a discussion of the future status of the U.S. naval forces in China today with Admiral Wooldridge, Mr. Butterworth emphasized the desirability of the Navy Department's taking steps to ensure that Admiral Badger not move any units of his command to Taiwan or to Hong Kong in the event of his withdrawal from Shanghai and Tsingtao without reference of the matter to Washington for approval. He pointed out that under present circumstances the presence of U.S. naval units at Taiwan might be embarrassing and present undesirable complications in the light of the current U.S. policy regarding Taiwan.

¹⁵ Not found in Department of State files.¹⁶ Rear Adm. E. T. Wooldridge, Assistant Chief of Naval Operations.¹⁷ Capt. H. R. Hummer of the Office of the Chief of Naval Operations.¹⁸ Wallace W. Stuart of the Division of Chinese Affairs.

He also said that British reports and apprehensions regarding a possible future Chinese Communist attack on Hong Kong seemed to make it undesirable to have U.S. naval units stationed at that city unless a considered policy decision were made in Washington to have U.S. naval units present when the crisis comes to a head.

Admiral Wooldridge expressed general agreement with the foregoing and said that he would see that Admiral Badger was appropriately instructed in this regard.

811.3393/5-1349 : Telegram

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

WASHINGTON, May 13, 1949—6 p. m.

587. On assumption Shanghai will fall in immediate future and prior fall Tsingtao, Navy and State in agreement ComNavWesPac shld withdraw all ships and activities from Tsingtao at time of Commie capture Shanghai. If Shanghai does not fall in immediate future, matter will be again reviewed in Washington.

Contd presence US naval forces Tsingtao involves risk Commies may preface move against Tsingtao with public announcement its objective expel US forces from city in which case withdrawal would be none the less inescapable but much more embarrassing to US Govt or it may afford Commies opportunity subsequent to capture of city boast they forced US Navy leave Tsingtao.

Navy sending identical message to Admiral Badger.

ACHESON

893.00/5-1749 : Telegram

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

SHANGHAI, May 17, 1949—11 a. m.

[Received May 17—5:14 a. m.]

1676. Dairen's telegram Nanking 101, repeated Department 154 [143], May 15 [14], 3 [5] a. m. [p. m.]¹⁹

In connection with reported intention of Soviets to withdraw from Dairen and instructions now issued not [*sic*] to withdraw from Tsingtao on fall of Shanghai, I suggest possibility when announcement of latter is made of including some reference to Dairen and Port Arthur in order emphasize US has withdrawn all armed forces from Chinese territorial sovereignty whereas Russia has not. This might put Russia

¹⁹ Vol. VIII, "Increasing difficulties of the Consulate at Dairen . . .".

in dilemma of whether appearing to withdraw under US pressure or of staying in defiance of Chinese sovereignty.

Sent Department 1676; repeated Nanking 929, Embassy Canton 471.

CABOT

811.3393/5-1749

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 17, 1949.

I telephoned Captain Hummer this morning and, without mentioning any names, informed him that the Department agreed with Admiral Badger's recommendation in his telegram of May 16²⁰ regarding the timing of the withdrawal of U.S. naval forces from Tsingtao. I added that the Department's concurrence was based upon the understanding that Admiral Badger would withdraw earlier than May 24, the date proposed in his telegram, if Shanghai should fall before that date. In that case, I pointed out, we felt that his withdrawal should coincide with the fall of Shanghai.

811.3393/5-1849 : Telegram

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

NANKING, May 18, 1949—8 p. m.

[Received May 18—12:26 p. m.]

1061. I had hoped it would not be necessary to make public announcement at time withdrawal few remaining US naval units from Tsingtao. Most US Navy personnel has been afloat for some months. Badger and larger units his fleet command have been in Shanghai, Yangtze mouth, Taiwan, et cetera, during recent weeks so that detachment Tsingtao while gradual is virtually fact. Public announcement of withdrawal would call attention to US Navy's presence there and coming at this particular time of Nationalist military debacle would be subject to misinterpretation. Present political considerations favor avoiding press release in my opinion. While no effort should be made, of course, to conceal withdrawal remaining naval units from Tsingtao waters, I feel that publicity, which official release would stimulate, should be minimized.

Re Shanghai's 1676, May 17, to Department, repeated Nanking 929, Canton 471, I have some doubts, should there nevertheless be press release on Tsingtao, desirability making reference to Dairen and

²⁰ Not found in Department of State files.

Port Arthur. *De jure* position of USSR in Port Arthur is unassailable at least during life of Sino-Soviet treaty.²¹ At same time our use of anchorage and port facilities Tsingtao cannot be compared in any way with Soviet domination of every phase of life and activity in Port Arthur and Dairen and I should dislike seeing them associated even by implication with our friendly, mutually beneficial position Tsingtao over past few years.

Sent Department, repeated Canton 444, Shanghai 604.

STUART

893.00/5-1949 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 19, 1949—11 a. m.

[Received May 19—6 : 34 a. m.]

197. Latest information indicates difficulties obtaining adequate shipping may delay completion of Nationalist evacuation of Tsingtao until second half June. Nationalist commander now moving headquarters close to main evacuation point east of Tsingtao.

Chinese Navy rapidly completing total evacuation.

Last US naval vessel left docks this morning, all US vessels thus at outer anchorage able move on few minutes' notice. Shore liberty restricted to 9 p. m. may soon be granted daylight hours only. Reparations [*Preparations*] under way [to] close officers' and enlisted men['s] clubs.

Sent Nanking 154; repeated OffEmb Canton 58 and to Department.

STRONG

811.3393/5-2549 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 25, 1949—4 p. m.

[Received May 28—4 : 57 a. m.]

207. Balance US naval forces leaving 4 p. m. today following fall Shanghai. Chinese forces have been loading for 2 days and additional ships due shortly. [In] view departure US vessels, expect Chinese commander rush completion evacuation troops and govt officials. Troops pulled into inner line, Communists have occupied points 15 miles from city. Hsuehchiatao, across bay from city, was abandoned yesterday. No sign disorder in city. Police have 500-ton vessel for their

²¹ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10, p. 300.

evacuation. Have learned mayor wishes remain but forced to go view threats he be branded collaborator and opportunist.

No satisfactory response yet received from mayor and military commander reference joint letter from foreign consuls May 23 requesting assurance foreign lives and property to be protected during evacuation and urging measures be taken by able local leaders organize for temporary govt direction until another administration installed. Have reports PPC²² troops already on police duty in city (mytel 157 to Nanking May 23, repeated OffEmb Canton 59, Dept 203).²³

Sent Nanking 158, repeated OffEmb Canton 60, Dept 207.

STRONG

811.3393/5-2649: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 26, 1949—3 p. m.

[Received May 27—7:31 a. m.]

209. Liu An-chi, local Chinese military commander, reported as very upset when told morning May 25 last US naval vessel to depart 4 p. m. Stated US Navy had agreed give 48 hours' notice such move. Endeavored persuade senior naval officer present to remain few days longer. Liu had previous orders be prepared evacuate upon US Navy departure. Although has number of ships, insufficient as yet for complete evacuation. Remainder due next 2 or 3 days. Apparently hoped presence US Navy vessels would help cover withdrawal. Vice Admiral Kwei Yung-ching also in Tsingtao connection evacuation.

City still orderly but people nervous and many shops closed in anticipation trouble from thousands refugees entering from country districts around Tsingtao now or soon to be occupied by Commies, view fact commodities down view dumping by military of supplies levied from population. Silver again at 12 percent premium over US currency. Businesses and property owners generally withholding payment cash levies and taxes on theory Nationalists soon to be out. Liu avoiding admitting withdrawal primarily to collecting largest possible amount money before leaving. This explains his unwillingness take steps allow local leaders organize to preserve order interim period. Mayor states Liu has definite plan in mind for this period. Appears previous plans for destruction of power, water, textile installations, etc., have been abandoned. Workers in these and other plants have been organized by managements for internal security. Red Swastika

²² Peace Preservation Corps.

²³ Not printed.

continuing operation ECA²⁴ refugee feeding kitchens with remaining ECA stocks. Power and water plants have arranged continuation water supply regardless whether coal ship arrives on schedule May 28.

Speedy withdrawal will lend considerable hope maintenance order if Commies not delay take over unduly.

Sent Nanking 159; repeated OffEmb Canton 63 and Department.

STRONG

Executive Secretariat Files

The Acting Secretary of State to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] June 6, 1949.

Pursuant to NSC Action No. 123, October 6, 1948, the following progress report on the implementation of NSC 11/3,²⁵ U.S. Naval Forces at Tsingtao, is submitted for the information of the Council:

The Commander of U.S. Naval Forces, Western Pacific, has reported that all remaining U.S. Naval units were withdrawn from Tsingtao on May 25, 1949. With this action, the phased withdrawal of Naval Forces from Tsingtao has been completed.

Since there are no longer U.S. Naval Forces stationed at Tsingtao, the action contemplated in NSC 11/3 (Tab A),²⁵ coordination of which was assigned to the Secretary of State, may be considered completed and, consequently, no further reports with respect to NSC 11/3 will be made.

JAMES E. WEBB

²⁴ Economic Cooperation Administration.

²⁵ Not printed.

EVACUATION OF AMERICANS FROM CHINA ¹

I. CONTINUED PLANNING FOR EVACUATION AND PROTECTION OF PROPERTY; DEPARTMENT OPPOSITION TO RETURN OF DEPENDENTS TO CHINA; AND SITUATION AFTER CHINESE COMMUNIST OCCUPATION OF NANKING AND SHANGHAI (JANUARY-JULY 5)

811.24593/1-549

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State (Lovett)

[WASHINGTON,] January 5, 1949.

The following comments may be helpful to you in connection with the discussion scheduled for January 6, in the NSC,² at the President's request, of the possibility of the United States retaining "a foothold" in Shanghai, should that city be taken over by the Chinese Communists.

A foothold in Shanghai might mean (1) American control, defense and administration of the entire city or selected areas thereof, (2) American control and defense of certain key port facilities and shore installations, or (3) the retention of the American Consulate General and, insofar as feasible, American private commercial, industrial, philanthropic, educational and religious enterprises in that city. It is believed that the position of American forces guarding all key installations within the city would become militarily and politically untenable in a Communist environment and that, consequently, if a foothold is to be retained in Shanghai, the real alternatives are (1) and (3) above.

Course (1) means that in effect the U.S. would assert rights similar to but more extensive than those existing under the pre-war system of extraterritoriality and foreign concessions—rights which the Chinese have always resented as a derogation of sovereignty and a stigma on the nation, which have been traditionally exploited by Chinese political groups to rally domestic support and which the U.S. formally renounced under the Sino-American Treaty of 1943,³ with other countries acting similarly. Even in that period, the United States had no concessions of its own and, in accordance with the Hay doctrine of the

¹ Continued from *Foreign Relations*, 1948, vol. VIII, pp. 809-946.

² National Security Council.

³ Signed at Washington, January 11, 1943, Department of State, Treaty Series No. 984, or 57 Stat. (pt. 2) 767. For correspondence on negotiation of this treaty, see *Foreign Relations*, 1942, China, pp. 268 ff.

"open door",⁴ limited itself to joint participation along with the other powers in the International Settlement at Shanghai and the Legation Quarter at Peiping. Without doubt any attempt by the U.S. to reestablish in any guise these rights pertaining to an era which has passed in China would meet with uncompromising hostility and opposition by Chinese in all walks of life, regardless of political affiliation. If they could be reestablished with the cooperation or connivance of the present Chinese Government, that government would probably lose a substantial portion of the public support remaining to it and would only be motivated so to do as a sure means of embroiling the U.S. Under these conditions, the Communists would be able to draw an effective if inaccurate parallel between Chiang Kai-shek⁵ and the United States on one hand and Wang Ching-wei⁶ and the Japanese on the other. In any case, the net result within China of such action by the U.S. would be increased support for the Chinese Communists and increased ill-will toward the U.S.

The present population of Shanghai is estimated at between 5 and 6 million persons. The number of Chinese refugees in the city is already large and would increase tremendously as soon as it became known that the U.S. had assumed responsibility for all or substantial areas of it. Should the Chinese Communists block the flow of essential commodities to Shanghai, or areas under American control, the U.S. would be faced with the alternatives of supporting to a large degree and for an indefinite period masses of humanity with little evident gain to ourselves or of withdrawing under pressure with serious loss of prestige. Furthermore, establishing an effective machinery for administering and governing the area under our control would, in the circumstances, present major problems.

From the standpoint of exerting pressure on the Communists, Shanghai in Communist hands would probably be more useful to us than in our own hands, for the Communists would then be responsible for the continued functioning of that city's complex and highly integrated economy and would probably have to continue the importation of essential commodities and industrial supplies from the U.S. and other western sources to avoid economic chaos and attendant social unrest.

Finally, the defense of Shanghai, or substantial areas thereof, from Communist attack and infiltration would be a major task which might well draw us into active military operations with the Communists on an increasing and unpredictable scale. And organized Communist ter-

⁴ Doctrine regarding China set forth by Secretary of State John Hay in correspondence with certain foreign governments; see *Foreign Relations*, 1899 pp. 128 ff.

⁵ President of the Republic of China.

⁶ Head of the Japanese-sponsored regime at Nanking, 1940-44.

rorism calculated to create chaos and provoke our forces to indiscriminate retaliatory action would be an ever-present danger.

From a broader standpoint, should the U.S. continue to occupy Shanghai following a collapse of the present Chinese Government, it is doubtful that any cloak of legality derived from that Government would protect us from charges in the UN ⁷ and elsewhere of maintaining a base at Shanghai solely for reasons of power politics. These charges would no doubt seriously weaken the moral leadership of the U.S. in world affairs.

In view of the foregoing, it appears more desirable to limit our foothold in Shanghai to the retention of the American Consulate General and, insofar as possible, American private enterprise in that city. Present plans already call for the continuance of the American Consulate General at Shanghai, in the event that city falls to the Communists. American naval vessels with complements of Marines are now stationed at Shanghai to protect and, if necessary, evacuate American citizens if serious disorders should arise during any interregnum between the breakdown of Nationalist control and establishment of Communist control in the city. Evacuation warnings which have been issued in China have suggested that American citizens who have no compelling reason for remaining consider the advisability of evacuating. In amplification, Americans have been informed that they, themselves, should decide what constitutes "compelling reasons" and that it was not intended to suggest that key American personnel in commercial, industrial, religious, and philanthropic enterprises should leave or that Americans having substantial interests in China should abandon those interests. The question of the status of American businessmen in Shanghai and the conditions under which they may be able to continue operations under Communist control are but aspects of the larger problem of the nature of future commercial relations between the United States and Communist-controlled areas of China. This problem is being actively considered at the present time.

894A.01/1-649 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, January 6, 1949—3 p. m.
[Received January 6—5:28 a. m.]

6. ReEmbtel 4.⁸ If "last stand" idea develops in fact, I propose authorize evacuation consular dependents and informally advise American community that dependents and nonessential personnel might be

⁷ United Nations.

⁸ Not printed.

well advised evacuate. Native reaction added to possible outside attack could be expected. Since continued presence here 13th Air Force group will affect timing my decision, request maximum advance notice from Manila any plan their withdrawal.

Have hitherto avoided any mention this as sure to cause local reaction but feel now I would be remiss not to warn.

Repeated Nanking as 2.

KRENTZ

125.0093/1-649 : Telegram

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

NANKING, January 6, 1949.

[Received January 7—3:23 a. m.]

51. First quarterly report Americans residing critical areas China follows:

Shanghai district as of 1/5: Official personnel and dependents 119 men, 90 women, 6 children, total 215. Other Americans registered 936 men, 533 women, 217 children, total 1756[1686?]. Other Americans not registered but believed residing in Shanghai 249 men, 204 women, 126 children, total 579; Kiangsu 44 men, 62 women, 16 children, total 122; Anhwei 9 men, 26 women, 8 children, total 42[43?]; Chekiang 17 men, 53 women, 6 children, total 76; Fukien 62 men, 115 women, 58 children, total 235. Total Americans 3026[2741?].

Nanking district as of 1/4: Official personnel 117 men, 34 women, 3 children, total 154. Other Americans 48 men, 33 women, 5 children, total 86. Total Americans 240.

Chungking district as of 12/31: Official personnel 5 men, 4 women, 1 child, total 10; Chungking City 16 men, 31 women, 25 children; balance district 77 men, 147 women, 67 children, total 291, total 373. Hankow as of 12/31: Official personnel 4 men, 1 woman, total 5; Wuhan cities 47 men, 58 women, 22 children, total 127; rest of Hupeh 15 men, 8 women, 5 children, total 28; Honan 5 men, 7 women, total 12; Hunan 33 men, 35 women, 15 children, total 83; Kiangsi 31 men, 37 women, 30 children, total 98; Shensi 1 man, 4 women, total 5. Total 358.

Peiping as of 1/5: Official personnel 54 men, 18 women, 14 children, total 86; Peiping City 74 men, 59 women, 20 children, total 153; Tungchow 2 men, 1 woman, total 3; Ninghsia 1 man, 2 women, 2 children, total 5; Paoting 2 women; Shansi 4 women. Total 253.

Tientsin as of 1/2: official personnel 11 men, 8 women, 1 child, total 20. Other Americans Tientsin 25 men, 14 women, 20 children, total 59; Tangshan 1 woman. Total Americans 80.

Tsingtao as of 12/27: official personnel 8 men, 8 women, 4 children, total 20; Tsingtao City 80 men, 72 women, 34 children, total 176; Tsinan 3 men, 4 women, total 7. Total Americans Shantung 203.

Kunming as of 1/3: Kunming City 171; Kweiyang 42; total 213. Only military personnel attached to offices of service attachés included in official personnel.

STUART

Executive Secretariat Files: NSC 34

Memorandum by the Executive Secretary of the National Security Council (Souers) to the Secretary of State

WASHINGTON, January 7, 1949.

Subject: Retention of U.S. Foothold at Shanghai

At its 31st meeting the National Security Council:

a. Discussed a memorandum on the subject,⁹ read by the Acting Secretary of State, which indicated the most feasible of three alternative means of retaining the U.S. foothold at Shanghai.

b. Agreed that the Acting Secretary of State should prepare for the information of the Council a memorandum outlining the course of action currently being followed by the Department of State with respect to the retention of a U.S. foothold at Shanghai.

The action quoted in *b* above is accordingly transmitted herewith for appropriate implementation.

SIDNEY W. SOUERS

894A.01/1-649: Telegram

*The Acting Secretary of State to the Consul General at Taipei (Krentz)*¹⁰

WASHINGTON, January 7, 1949—6 p. m.

2. Urtel 6 Jan 6, rptd Nanking 2. Dept of opinion physical isolation Taiwan from mainland and presence Chi naval and air units, together with munitions being delivered Keelung, make island relatively free from threat external attack for time being. Unless strong possibility native uprising or disaffections Chi Govt forces, issuance warning this juncture would seem premature. Ur views and those of Emb requested.

LOVETT

⁹ Compare the memorandum of January 5, by Mr. Butterworth, p. 1210.

¹⁰ Repeated to the Ambassador in China as No. 20.

Executive Secretariat Files: NSC 34

Memorandum by the Acting Secretary of State to the Executive Secretary of the National Security Council (Souers)

[WASHINGTON,] January 12, 1949.

Subject: Steps being taken to retain a U.S. foothold at Shanghai

The following outline of the course of action currently being followed by the Department of State with respect to the retention of a U.S. foothold at Shanghai is supplied pursuant to the Council's action at its thirty-first meeting.

1. Under present policy, existing diplomatic and consular establishments in China will be retained, although areas in which they are located come under Communist control. The American Consulate General at Shanghai will continue, insofar as possible, its normal functions if control of that city passes to the Chinese Communists.

2. In issuing warnings to American citizens regarding evacuation, care has been taken not to suggest that key American personnel in commercial, industrial, religious and philanthropic enterprises should leave or that American citizens having substantial interests in China should abandon those interests. American naval vessels with complements of Marines are now stationed at Shanghai to protect and, if necessary, evacuate temporarily American citizens in the event serious disorders should arise during any interregnum between the breakdown of Nationalist control and the establishment of Communist control in the city.

ROBERT A. LOVETT

894A.01/1-1249 : Telegram

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

NANKING, January 12, 1949—2 p. m.

[Received 5:45 p. m.]

89. Embassy inclined concur with Department's judgment that issuance of evacuation warning to American citizens residing Taiwan this juncture would seem premature (Deptel 20, January 7, sent Taipei as 2). In our judgment following factors are determining:

(1) Chinese Government forces presently on island are sufficiently strong to put down potential native uprisings.

(2) No prospect in foreseeable future of serious military threat to island by Communist forces on mainland.

(3) In light of reported government plans for Taiwan, issuance at this time of public warning to Americans to evacuate would be considered body blow to already reeling Nationalist Government which it has been our policy to support.

We submit these considerations with full realization that ConGen at Taipei has responsibility for making recommendations with respect to safety of consular dependents and American citizens in Taiwan and we would of course be guided by his judgment in final analysis.

Sent Department 89; repeated Taipei.

STUART

125.0093/1-2549 : Telegram

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

NANKING, January 25, 1949.

[Received January 25—2:42 a. m.]

206. We have requested Embassy Manila again approach Army regarding possibility transferring China evacuees to Baguio on termination Philippine University camp March 1 or sooner if possible. If this impossible we propose, pending clarification China scene, transfer them to Macao where Portuguese Governor General has undertaken make hotel accommodations available, but before making firm commitment there would appreciate Department's approval and replies to following questions:

1. If government not available, would Department defray expense of commercial transportation?
2. Would Macao be considered temporary place of refuge from which transportation to US would be authorized if early return Nanking impossible?
3. Since Macao in Hong Kong Consular District, would Hong Kong per diem rate be applicable?
4. Would Department authorize travel one officer week in advance arrival dependents to make necessary arrangements?
5. Service Attachés could not support dependents at Macao unless government housing were provided and minimum cost of living already requested for Manila were granted to cover subsistence. Could US Government rent necessary hotel rooms and thus supply government housing?

Repeated Shanghai 97.

STUART

124.018/1-2549 : Telegram

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

NANKING, January 25, 1949—4 p. m.

[Received January 26—4:11 a. m.]

212. Admiral Badger, ComNavWesPac,¹¹ has raised question possible desirability taking steps through public announcement of strictly

¹¹ Vice Adm. Oscar C. Badger, Commander, U.S. Naval Forces in the Western Pacific.

neutral character Marines stationed Nanking in effort minimize possibility involvement during or after fall Nanking. He also suggests possibility similar communication through private channels to Communists.

We believe it inappropriate endeavor communicate direct with Communists but on mature consideration feel useful purpose might be served by statement to press at this time along following lines:

"In answer to inquiries, the American Ambassador feels that a clarification of the position of the United States Marines in Nanking is desirable. As purely precautionary measure in carrying out his responsibilities in respect of protection of American citizens in general and his staff in particular, the American Ambassador has obtained, through the cooperation of ComNavWesPac, the detail to Nanking of one US naval destroyer transport with its complement of US Marines for the duration of the emergency. As a matter of ordinary prudence, Marine guards have been stationed at the Embassy Chancery, at the Ambassador's residence and the principal other places of residence of his staff in Nanking in an effort to assure protection to American lives and property during any emergency situation which may result from possible disturbed conditions in this area.

"Immediately peaceful conditions have been re-established and there is municipal of [or] other authority capable of maintaining order in the city, the Marines will be re-embarked aboard the naval vessel which will thereupon depart from Nanking."¹²

STUART

125.857/1-2749 : Telegram

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

SHANGHAI, January 27, 1949—10 p. m.

[Received January 27—3:36 p. m.]

276. Deptel 95, January 26 to Nanking¹³ and Embtel 187, January 22.¹⁴ Before Embassy sent instructions reference telegram I strongly urged stripping of staff of Shanghai Consulate General at last minute before Communist entry on grounds that Mukden experience showed maintenance of full staffs was largely useless and would simply help Communists humiliate US through its officials. Trend of events suggests possible long period of nonrecognition, perhaps with aid still going to Nationalists; this would give Communists positive reason for denying facilities such as communications to Consulate General and might well result in reprisals. It would be unwarranted to keep cooped up here staff which is badly needed

¹² The Secretary of State stated in telegram No. 105, January 26, 9 p. m., to the Ambassador in China: "Issuance press notice (Embtel 212 Jan. 25) left to discretion Amb."

¹³ Vol. VIII, "Successive moves of the Embassy Office in China in efforts to . . ."

¹⁴ *Ibid.*

elsewhere; upon recognition, Communists could scarcely prevent our increasing it since they would have to send officials to Washington. Since receipt of Embtel Consulate General has been studying specific recommendations for reduction of its staff. Situation is so fluid that we feel it would be better if Department could give us wide measure of discretion.

Navy intends to offer ships in river as haven for Americans who are willing to leave their homes when arrival of Communists appears imminent. This would not be an emergency evacuation but rather a facility of which American citizens could avail themselves if they so wished. I request authority at that time to order up to 70 percent of Consulate General staff aboard US warships for removal from Shanghai.

I do not see that Department statement re maintenance of diplomatic and consular representatives China could be construed as preventing Department from altering its position under changed circumstances. Moreover reduced staff which would remain under me would presumably be able to accomplish anything on behalf of remaining American citizens and interests which could be accomplished.

If Department approves I think I should be permitted to inform community either publicly or privately of decision.

Sent Department 276, repeated Nanking 213.

CABOT

811.3393/1-2749 : Telegram

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

SHANGHAI, January 27, 1949— 11 p. m.

[Received January 28—9:29 a. m.]

277. In conference today vital question arose of future policy re maintenance of ships in Whangpoo after Communist take-over of Shanghai. Obviously a heavy ship in Whangpoo would tend assure American official and private communication with outside world and might deter Communists from any unwarranted action against American citizens or interests. On other hand Communists might demand ship's withdrawal and would certainly not grant permission even if asked for ship's replacement. Although Badger states that one ship could remain in river for months even without shore liberty, etc., such a long stay would obviously be undesirable from ship's viewpoint. On other hand replacing ship without permission would certainly arouse Communists' screams and perhaps provoke incidents.

If we are not to maintain ship in river regardless of Communist protest, I must the more strongly urge upon Department stripping of

Consulate General staff as recommended in my 276 to Department, 213 to Nanking. I feel moreover that we should in one form or another further warn Americans that remaining in Shanghai may prove very unpleasant experience.

Badger informs me that he could put transport into Shanghai about February 8 capable taking practically entire American colony—other words certainly adequate to handle any Americans prepared to heed final warning. Understand Badger is also consulting Navy Department re these problems.

Sent Department 277, repeated Nanking 214.

CABOT

393.115/1-2849 : Telegram

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

SHANGHAI, January 28, 1949—10 a. m.

[Received January 28—9:40 a. m.]

279. British Consulate General beginning to issue notices for posting on British privately-owned property requesting protection. Per previous instructions Consulate General has only issued Chinese military posters obtained through Embassy Nanking. Recently Consulate General has issued letters to Americans in urgent cases identifying certain property as American-owned and stating that new treaty¹⁵ requires proper protection. Consulate General opposes issuance consular notices because large number Americans in Shanghai would result in widespread use of notices reducing effectiveness, providing opportunity for anti-imperialist propaganda, possibly arousing reaction as constituting slur on Chinese sovereignty in view of former extraterritoriality, creating numerous instances for decision as to extent of American interest justifying poster issuance, and substantially increasing administrative burden. Consulate General requests instructions.

Sent Department 279, repeated Nanking 206.

CABOT

125.0093/1-2549 : Telegram

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

WASHINGTON, January 28, 1949—7 p. m.

128. Reurtel 206, Jan. 25. Dept has no objection transfer evacuees Manila to Baguio if Emb Manila agreeable and accommodations available.¹⁶ Dept pursuing matter with Army.

¹⁵ Treaty of friendship, commerce and navigation, signed at Nanking, November 4, 1946, Department of State, Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299; exchange of ratifications not effected until November 30, 1948.

¹⁶ The Chargé in the Philippines in telegram No. 251, January 28, reported accommodations unavailable at Baguio (125.0093/1-2849).

Dept cannot agree return dependents China presently and does not consider Macao suitable place final refuge. If conditions unsuitable return dependents China before closing Manila staging area Dept will order movement dependents US unless other suitable refuge justified and previously approved by Dept.

Upon closing Manila camp, if conditions China not stabilized sufficient permit return dependents, and employee with dependents not transferred another post, eligible only for separation allowance.

Repeated Manila.¹⁷

ACHESON

125.0093/1-2949: Telegram

*The Ambassador in China (Stuart) to the Secretary of State*¹⁸

NANKING, January 29, 1949—3 a. m.

[Received 6:26 a. m.]

268. Those officers Chancery, Service Attachés remaining Nanking after transfers contemplated Deptels 104, January 26¹⁹ and 112, January 28 [27]²⁰ and who still have wives, children Manila awaiting further travel orders, now desire on individual basis bring their families back to Nanking immediately. Their reasoning generally is based following:

(1) Danger that Nanking would be stoutly defended by Nationalists appears from best military advice to have diminished substantially with Generalissimo's²¹ withdrawal and Nationalist troop movement through Nanking to points south.

(2) Danger of civil disturbances not materialized in Mukden, Tientsin or Peiping;

(3) Time limit use site near Manila coming up soon and uncertainty future there considered outweigh possible risks Nanking in own homes;

(4) Men designated remain Nanking feel will be here some time and chances bringing in families after Communist occupation Nanking, in light pattern Communist behavior north, very doubtful. Having in mind Department's position as expressed in late November, I have told all officers I consider this a matter for their personal decision and will raise no objection to their making their own individual arrangements for bringing their families back (see Embtel 265, Jan-

¹⁷ Repeated to Manila as No. 107.

¹⁸ The Ambassador reported in telegram No. 269, January 29, that "Mytel 268, January 29 refers Deptel 1691, November 23"; for latter, see *Foreign Relations*, 1948, vol. VIII, p. 892.

¹⁹ Vol. VIII, "Successive moves of the Embassy office in China . . .".

²⁰ Not printed.

²¹ Chiang Kai-shek, who retired as President on January 21 in favor of Vice President Li Tsung-jen as Acting President.

uary 28²²). This they are doing. Since return on relatively large scale (approximately 50 women and children Nanking) would undoubtedly be construed as having political implications at time when Chinese Government is leaving capital, American Minister and staff proceeding Canton, and Nanking on eve of siege or capture by Communists, feel I must report this move Department.

Sent Department 268, repeated Shanghai 119, Manila 14.

STUART

840.48 Refugees/1-3049 : Telegram

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

SHANGHAI, January 30, 1949—2 p. m.

[Received January 30—2: 33 a. m.]

305. ReEmbtel 268, 29th, to Department, repeated Shanghai 119, Manila 14. Consulate General regrets it was not informed until January 29 of plan for return of dependents Nanking. It does not feel any dependents should return here although obviously cannot prevent their returning if they want.

In addition political implications mentioned reference telegram, move will constitute embarrassing evidence vacillation from original policy without significant change of conditions which prompted move to Manila, it invites serious administrative and morale complications here. Quite apart from danger of violence during take-over of Shanghai, Consul General considers it unwise to subject families unnecessarily to possibilities disagreeable experience at hands unrecog-nized and vengeful regime.

Repeated Nanking 238, Manila 18.

Nanking pass ALUSNA,²³ MilAt.²⁴

CABOT

125.0093/1-3049 : Telegram

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

NANKING, January 30, 1949—8 p. m.

[Received January 30—6: 45 a. m.]

275. Reurtel 128, January 28. While we do not feel justified in recommending making official arrangements for return of dependents

²² Not printed; it reported that Second Secretary Ralph N. Clough and Assistant Attaché Josiah W. Bennett had decided to return their families from Manila to Nanking immediately at their own expense (123 Clough, Ralph N.). See quotation in third paragraph of telegram No. 328, February 7, 4 p. m., from the Ambassador, p. 1226.

²³ Office of Naval Attaché.

²⁴ Military Attaché.

from Manila at this time, we had believed that individual officers would be permitted to return dependents to Nanking at own expense if they desired. Decision to evacuate dependents was made by each officer on basis of situation at that time and those who elected evacuate their families to Manila in preference US did so because proximity would make possible reasonably early return, if necessary at personal expense, to China. Those officers designated remain in Nanking with families still Manila consider they face prolonged period separation from their families under trying conditions. We are in sympathy with Department's original position that decision whether families were to remain together should be one for each individual, and this we had interpreted to mean that those who wish return their families now should not be prohibited from so doing. Department's policy, we understand, is to keep families together whenever possible. After studying Embtel 268, January 29, giving reasons why individuals now feel justified returning their families Nanking, does Department still maintain position its telegram 128, January 28, on return dependents to China, under circumstances therein outlined?

Only three Nanking officers affected exclusive of Service Attachés. Urgent reply requested as Clough, Kierman²⁵ and Bennett have commercial reservations their families depart Manila evening January 31 and there is no assurance how much longer commercial facilities will be available.

Sent Department, repeated Shanghai 123, Manila 15.

STUART

125.0093/1-3049 : Telegram

The Secretary of State to the Chargé in the Philippines (Lockett)

WASHINGTON, January 31, 1949—8 p. m.

116. Re Nanking's 275, Jan 30 to Dept, rptd Manila 15. No action should be taken re return evacuated dependents to China pending receipt Dept's further instructions.

ACHESON

125.0093/2-149 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, February 1, 1949.

[Received January 31—11:14 p. m.]

262. Navy (Marine) C-47 airplane number 2438 carrying 16 service attaché dependents, including those of General Soule and Captain

²⁵ Frank A. Kierman, Assistant Attaché.

Frankel,²⁶ departed Manila for Nanking 312325Z.

Sent Nanking 13, repeated Department 262 and Shanghai 21.

LOCKETT

125.0093/2-149 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, February 1, 1949—5 p. m.

[Received February 1—8:42 a. m.]

271. Since évacuées look to Nanking for instructions concerning their movements, I venture to suggest that Nanking be adequately informed of Department's policy concerning return of évacuées so there will not continue to exist any misunderstanding about it. Air Attaché plane from Nanking arrived Manila, February 1 for purpose of departing February 3 with évacuées. Air Attaché Nanking has been shown Deptel 116, Jan. 31. I will confer with Air Attaché Nanking tomorrow morning and inform Department immediately of his plans relative his return Nanking with évacuées.

LOCKETT

125.0093/2-249 : Telegram

*The Secretary of State to the Ambassador in China (Stuart)*²⁷

WASHINGTON, February 2, 1949—4 p. m.

157. Dept continues of opinion expressed Deptel 128 Jan 28 that dependents should not return to China and thoroughly disapproves of action taken by officers concerned to effect return their families in clear contravention of Dept's instructions and without awaiting Dept's approval. However Dept does not wish to penalize dependents these officers by insisting they undergo another hazardous flight to Manila and authorizes Shanghai release these dependents for return Nanking immediately (urtel 290 Feb 1 rptd Shanghai 130²⁸).

You are instructed submit full report this matter immediately with particular reference fol points: (1) were concerned officers and/or

²⁶ Brig. Gen. Robert H. Soule and Capt. Samuel B. Frankel, Military and Naval Attachés in China, respectively.

²⁷ Repeated to the Consul General at Shanghai and to the Chargé in the Philippines as Nos. 176 and 130, respectively.

²⁸ Not printed; it stated: "Bennett, Kierman and Clough families arrived Shanghai by commercial air on February 1 before receipt Deptel 145, January 31 to Nanking, sent Manila 116 (reEmbtl 275, January 30). Will stay there pending Department's decision which we request most urgently in view time factor here." (123 Bennett, Josiah W.)

dependents fully apprised of Dept's position re return dependents to China as stated Deptel 128; (2) was there additional correspondence betw Embs Nanking and Manila this subj of which Dept not apprised indicating Nanking's authorization of return on own responsibility. Dept wishes ascertain soonest where responsibility for this action should be placed.

ACHESON

125.857/1-2749 : Telegram

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

WASHINGTON, February 2, 1949—7 p. m.

177. Dept appreciative recommendation made urtel 276, Jan 27, concurs ur opinion staff should be reduced. Dept doubts, however, situation Shanghai will develop along lines parallel to Mukden and believes any event large American colony remaining Shanghai may make increased demands ConGen services for protection and representation with local authorities.

ConGen already has wide discretionary authority re evacuation staff members *in extremis*. As staff reduction contemplated not in nature such evacuation, individual transfers and Travel Orders would be required enable personnel proceed fill vacancies elsewhere. Suggest therefore ConGen submit earliest names persons recommended be transferred for Dept's consideration and action.

Recent developments north China have not altered Dept's opinion expressed Deptels 2004 Nov 23²⁹ and 2078 Dec 2³⁰ that mass evacuation American citizens from Shanghai not necessary from standpoint safety individuals nor desirable from standpoint best interests US. You should therefore keep in mind when recommending drastic staff reduction effect such movement would have on Amer community Shanghai as well as assurances which have been given that in any unforeseen evacuation *in extremis* US business and missionary personnel would be accorded same facilities as official personnel. If decided staff be reduced, you should also be prepared emphasize in discussions with representatives Amer community that staff reduction occasioned solely by anticipated decrease in workload and that remaining staff will be adequate look after interests and extend all feasible protection Amer citizens remaining Shanghai.

ACHESON

²⁹ See footnote 68, *Foreign Relations*, 1948, vol. VIII, p. 892.

³⁰ *Ibid.*, p. 907.

393.1115/2-249 : Telegram

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

NANKING, February 2, 1949—9 p. m.

[Received February 3—1:59 a. m.]

300. Re Shanghai's 279, January 28, repeated Nanking. As comment on reftel, Embassy states that in performance protective function in Nanking district it expects to continue issue posters identifying and protecting American property this city. However, American property here insignificant compared to Shanghai and Embassy believes problem arising widespread use of posters should be decided by Consulates for localities their districts, subject Departmental approval.

Sent Department, repeated Shanghai 133.

STUART

125.0093/2-449 : Telegram

The Secretary of State to the Chargé in the Philippines (Lockett)

WASHINGTON, February 4, 1949—3 p. m.

146. Emb Manila instructed pick up passports any évacuées who intend return China contravention Depts instructions Deptel 128, Jan 28, Deptel 157 Feb 2 to Nanking, Deptel 116 Jan 31 to Manila.

Dept will entertain special requests for return certain dependents unusual circumstances only after careful consideration and Emb Nanking recommendations.

Sent Manila. Repeated Nanking [171,] Canton [31,] telCan [7,] Shanghai [190].

ACHESON

125.0093/2-449 : Telegram

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

NANKING, February 4, 1949—6 p. m.

[Received February 4—9:05 a. m.]

315. Air Attaché plane presently in Manila ready to return second group Military Attaché and Air Force dependents China. Air Attaché has inquired if Deptel 157, February 2 applies equally to Service Attaché's dependents. Please instruct urgently, repeat in Manila.

Dept should consider that part of Service Attaché's dependents already returned Nanking by Navy plane February 2 (see Embtel 294, February 2, repeated Manila 18³¹) as well as three State families

³¹ Not printed; but see telegram No. 262, February 1, from the Chargé in the Philippines, p. 1222.

and that intolerable personnel situation would be created if second group now Manila prevented rejoin husbands here.

Sent Department 315, repeated Manila 21.

STUART

120.301/2-449 : Telegram

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

WASHINGTON, February 4, 1949—8 p. m.

178. Urtel 315 Feb 5. As Service Attachés part of Amb's staff, Amb shld instruct Attachés that their dependents are subject same restrictions re return China mainland as other Emb officers and employees. Deptel 157 Feb 2 (rptd Manila 130) and Deptel 171 Feb 4 (rptd [*sent*] Manila 146) shld therefore apply equally to dependents Service Attachés.

ACHESON

120.301/2-749 : Telegram

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

NANKING, February 7, 1949—4 p. m.

[Received February 8—4:35 a. m.]

328. ReDeptel 157, February 2. Full report on returned dependents China follows:

Question return dependents raised Embassy staff meeting January 27 (not including Service Attachés). Minister-Counselor stated he did not agree conditions had so changed Nanking that Embassy would be warranted in approaching Department to request general return dependents to China. However, in view Department's position expressed in telegram late November ³² that no pressure be brought to bear on officers respect evacuation their families, he (Minister-Counselor) had no more authority order dependents remain Manila than he had authority order them evacuate Nanking last December. He agreed that as original decision to evacuate families from China had been one for each officer, each officer was still free to make individual arrangements bring his family back on his own initiative and responsibility. Ambassador concurred and Clough and Bennett on basis above considerations and after approval of same by responsible officers in Chancery wired families to return commercial means. Department informed this action

³² No. 1691, November 23, 1948, to the Ambassador in China, *Foreign Relations*, 1948, vol. VIII, p. 892.

Embtel 265, Shanghai 28 and Manila by Embtel 9, January 28,³³ text as follows:

"Clough and Bennett are wiring families return Nanking soonest own expense. Embassy interposes no objection."

Later same day Kierman wired his wife return. Embtel 268, January 29, repeated Manila 14, Shanghai 119, explained fully officer's reasoning and Embassy's position. On January 29, Embassy also sent Manila telegram 13, pertinent portion text as follows:

"Service Attachés arranging to send their planes Manila to return dependents Nanking, first flights to arrive Manila Monday. Priority to be given Service Attaché dependents, but State Department dependents will also be returned Nanking this means if conditions permit sufficient flights. As time of essence, some individuals proceeding with commercial arrangements at own expense. Shanghai dependents will not be included these flights since factor not so pressing".

On January 30, Embassy received Deptel 128, Jan. 28, stating Department could not agree to return dependents, and Manila's 12, January 28 (repeated Department 253³⁴), stating in view Deptel 128 State Department dependents had been requested delay departure from Manila until further clearance from Nanking. Deptel 128 was shown Service Attachés who considered it inapplicable their dependents as it spoke of "ordering dependents US", an action outside competence of State Department in so far as Attaché dependents concerned. Embassy therefore informed Manila by Embtel 16, Jan. 30,³⁵ that airlift Attaché dependents was proceeding. As Deptel 128 was not in response to Embtel 268, January 29, and was first indication Department's opposition to return dependents China, Embassy's telegram 275, Jan. 30 (repeated Manila 15), explaining further position of Embassy and officers concerned and asking whether after study Embtel 268 Department maintained opposition. Embassy and officers concerned assumed dependents were delaying departure accordance Manila's request and sent no further communication, either official or personal, Manila concerning them while awaiting Department's reply to Embtel 275. First intimation officers had of their dependents' departure from Manila was Shanghai's report their arrival Feb. 1. Embassy immediately informed Department by telegram 290, Feb. 1.³⁶

Dependents state they were not informed of position Embassy Nanking as outlined telegrams 268 and 275. They were, however, given

³³ See footnote 22, p. 1221.

³⁴ Not printed.

³⁵ Not found in Department of State files.

³⁶ See footnote 28, p. 1223.

memo from PU⁸⁷ Army authorities dated January 29 to sign stating "Local Embassy will not prohibit your going to China. However, you will be going at your own risk and in violation of State Department radio attached". This radio apparently paraphrase of Deptel 128 quoted as follows: "State Department does not intend to return State Department and ECA people to China this time." According dependents, they were orally told by Embassy officer that Embassy could not prevent their going, but disapproved, and urged them to wait for Attaché plane. However, dependents, knowing first flight Attaché dependents was returning Nanking following day and feeling to wait for later Attaché flights might make it impossible return at all because of severed communications, departed commercial air January 31. They interpreted radio quoted above to mean Department would not provide official facilities to them to return, not as prohibiting their return, as they were aware that original decision to evacuate them had been made by their husbands, and that they had not been "ordered" out of China.

Embassy and officers concerned do not feel latter "took action to effect return their families in clear contravention Department's instruction", because (1) original action to effect return their families was believed in accordance with Department's policy that officer should individually decide whether to keep family with him (at time making decision to evacuate them no officer was informed he could not bring his family back upon his own initiative) and (2) after being informed of Department opposition to return of families and Manila's request to dependents to delay departure, they took no action personal or official beyond requesting Department give matter further consideration.

Sent Department, repeated Manila 28, Shanghai 145, Embassy Canton 20.

STUART

811.3393/1-2749 : Telegram

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

WASHINGTON, February 7, 1949—7 p. m.

208. Reurtel 277, Jan 27, rptd Nanking 214. Question disposition *Bayfield* foll Comm occupation Shanghai under consideration by Dept which discussing matter with Navy. You will be informed when final decision reached.

ACHESON

⁸⁷ Philippine University, area where dependents were located.

120.301/2-949 : Telegram

*The Minister-Counselor of Embassy in China (Clark) to the Secretary of State*CANTON, February 9, 1949—1 p. m.
[Received February 9—7:03 a. m.]

[Cantel] 24. May I confirm action outlined first paragraph Nanking's 238 [328],^{37a} repeated Canton 20, re return dependents China. I had felt that if dependents dribbled back to Nanking by own means no harm would be done. However, when I heard that service Attachés planned arrange flights to bring all service Attaché families back to [by] Government transportation, the political repercussions to be expected were obvious, and it was for that reason Department was informed. I left Nanking January 29 and have no knowledge of subsequent developments in Nanking. However, dependents having returned Nanking, it would seem discrimination against those abiding by Department's wishes if families remaining Manila are now [not] allowed similar privilege of returning voluntarily at their own expense to their posts in China. As reported my 13, February 6, repeated Nanking 13,³⁸ this particularly true at Canton.

Sent Department 24, repeated Nanking 23.

CLARK

393.115/2-249 : Telegram

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

WASHINGTON, February 17, 1949—6 p. m.

302. To insure all useful means taken protect US prop[erty] (ConGen tel 279, Jan 28, rptd Emb 206; Embtel 300, Feb 2, rptd ConGen 133) during interval possible civil disturbances and view Brit action Dept feels ConGen should issue on request Am[erican] owners protection posters wherever substantial Am financial interest known exist.

ACHESON

125.0093/2-1849 : Telegram

*The Secretary of State to the Ambassador in China (Stuart)*³⁹

WASHINGTON, February 18, 1949—7 p. m.

241. Dept plans close Manila staging camp March 1. Dept feels return US State dependents on separation allowance most desirable course.

^{37a} February 7, p. 1226.³⁸ Not printed.³⁹ Repeated to the Consul General at Shanghai as No. 313.

It will not appear from Embassy reports that open hostilities likely to occur in Lower Yangtze but peaceful turnover cannot be counted on and therefore Dept of opinion not justified this time authorize general return dependents from Manila or US to posts China already evacuated. However, Dept will consider individual recommendations from Emb for dependents whose sponsors strongly desire their return China and willing assume full responsibility.

No dependents should proceed without receiving Dept's prior authority for travel to US or return to China.

Dept believes Amb will wish apply same regulation to dependents service attachés and decision other posts will be made after consultation each CG concerned.

Sent Nanking repeated Manila and all China posts.

Emb should remember in making recommendations that whatever treatment recommended for dependents FS personnel will also be accorded dependents American business missionary personnel whose work likewise in American interests.

ACHESON

120.301/2-2049 : Telegram

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

SHANGHAI, February 20, 1949—9 a. m.

[Received February 19—11:30 p. m.]

606. Deptel 313, February 18.⁴⁰ I wish to go on record as believing emphatically this is no time for dependents to be returning to Shanghai area. Not only are there perceptible signs troubles here are only beginning but also I feel such matters as future of aid program, recognition of Communist-dominated government and other matters which may strongly affect treatment of Americans here, particularly officials, should be clarified before dependents are permitted to return.

Sent Department, repeated Manila 36, Canton 76, Nanking 408.

CABOT

125.0093/2-2149 : Telegram

The Secretary of State to the Chargé in the Philippines (Lockett)

WASHINGTON, February 21, 1949—6 p. m.

223. Emb instructed close PU camp Mar 1 or sooner if Army withdrawn. Dept will issue orders movement dependents soonest. ReDeptel 241 Feb 18 Emb Nanking requested recommend destination dependents FS personnel. View Embs recommendation Dept perceives no objec-

⁴⁰ See footnote 39, p. 1229.

tion return Nanking dependents six S[er]v[ic]e Attachés mentioned Nanking's 431, Feb 21.⁴¹

Sent Manila repeated Nanking, Canton as telCan.⁴²

ACHESON

120.301/2-2449 : Telegram

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

SHANGHAI, February 24, 1949.

[Received February 24—4: 14 a. m.]

652. [To Manila:] For Shanghai dependents. Reurtel 21st. Your anxiety to rejoin loved ones soonest certainly understandable and I have no intention to forbid your doing so in view pattern set by Embassy and Department in permitting return China dependents Nanking and Canton.

However, I must reiterate my opinion that situation not materially changed since first evacuation and that return dependents Shanghai for the present most unwise especially families with children. My conviction this regard emphatically conveyed to heads of families in meeting here yesterday and further demonstrated by scheduled departure Mrs. Cabot 28th. In addition to likelihood hardships and possible dangers Shanghai assumption responsibility by your sponsors would place them in difficult position regarding performance duties in fact [*face?*] continued anxiety your welfare and safety and increase burden Consulate General and Navy for ultimate protection American lives and property Shanghai.

I understand that Embassy Manila is now making housing available for continued residence dependents not already returned China or proceeding US on home leave. I strongly recommend that you avail yourselves this opportunity as most desirable alternative to returning Shanghai or proceeding US. However, I do not order that you do so and have asked Department and Embassy whether your present orders may be amended to permit temporary return Shanghai and thence return US when warranted.

I greatly regret anxiety and uncertainty you have suffered through no fault of your own and assure that Consulate General will keep you informed and will do everything possible your behalf.

Sent Manila 46; repeated Department 652, Nanking 431.

CABOT

⁴¹ Not printed.

⁴² As telegrams Nos. 249 and 76, respectively.

125.0093/2-2849 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, February 28, 1949.

[Received February 28—12:31 a. m.]

505. For FA.⁴³ Evacuées PU area Monday February 28: State 41; Army none; Navy none; Air none; ECA 8; ⁴⁴total 49.

The PU area will close as of midnight tonight and the remaining evacuées established in quarters in the Military Plaza compound.

LOCKETT

393.115/2-2849 : Telegram

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

SHANGHAI, February 28, 1949—3 p. m.

[Received February 28—3:28 a. m.]

691. ReDeptel 302.⁴⁵ Unless objection, will issue this week two series protection posters to American nationals for American-owned property and for American-tenanted property. Will not issue posters Chinese Americans or where bona fide substantial American interest not involved.

Sent Department, repeated Nanking 446, pouched Canton.

CABOT

811.3393/3-249 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, March 2, 1949—11 a. m.

[Received March 2—5:01 a. m.]

105. [To Nanking:] Reference emergency planning mutuality believed achieved with US Naval forces except:

(1) Consul General believes protection whether ashore or afloat should be granted all non-Asiaties who desire it plus Filipinos; of some 800 such persons expected reside here should emergency arise, believe only small percentage seek refuge; Consul General desires lay plan aid them do so. Naval forces concept calls for sanctuary ashore for Americans plus other designated foreigners (designating authority unnamed) who may appear at concentration point; reluctant take other than American aboard.

(2) Consul General feels duration emergency would be brief, those placed afloat for safety to be allowed return ashore thereafter if so

⁴³ Division of Foreign Service Administration.⁴⁴ Economic Cooperation Administration.⁴⁵ February 17, 6 p. m., p. 1229.

desire whether in ship's boats or in boats provided from shore by Consul General; consider return of Americans would promote US interests; most Americans remaining here have chosen accept Communist rule. Naval concept envisages evacuation from area following embarkation.

(3) Moral obligation exists evacuation ECA Chinese staff imported from Shanghai whose presence here essential until last moment. Plans should specifically include authority embark said ECA Chinese certified by Consul General. Plans now exclude all Chinese.

(4) Embassy please note paragraph 3 X 4 page 4 AQ 5 ComNav-WesPac OP order 2-49.⁴⁶ Believe this paragraph not fit situation Tsingtao where intended withdraw rather than engage in combat.

Admiral Badger stated earlier he expects retain several vessels Tsingtao even after given up as main fleet station and previous acceptance by Rear Admiral Rees of return of civilians ashore after order restored would, barring the unexpected, such as extended period disorder or need for naval vessels elsewhere or threat by Communist to US vessels, appear indicate needs of local foreigners as visualized by Consul General can be met.

Would appreciate Embassy's comment and clarification.

Navy and Marine officers concerned have been most friendly, cooperative re plans.

Sent Nanking 90, repeated Department 105.

STRONG

893.00/3-349 : Telegram

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

SHANGHAI, March 3, 1949—6 p. m.

[Received March 3—6 : 52 a. m.]

735. [To Nanking:] I have discussed with Mayor Wu proposed contribution some 300 million GY⁴⁷ by Shanghai guilds to maintain soldiery now quartered in city. I pointed out Consulate General and American business were seriously concerned at possibility latter would be asked make voluntary contribution to one side in Chinese Civil War. I added American business would, of course, raise no question about legally enforceable taxes.

Mayor Wu pointed out funds for maintenance troops quartered this area are wholly insufficient for their food, pay, etc., that many incidents showed soldiery were getting out of hand and contribution was designed keep them satisfied. When I expressed my sympathy with his objective but repeated my misgivings re voluntary rather than

⁴⁶ Not found in Department of State files.

⁴⁷ Gold yuan dollars.

legally enforceable contributions, Mayor Wu claimed this contribution would be legally enforceable under munic[ipal] ordinance. Despite his assurances, I am frankly not satisfied this contribution when promulgated will be legally enforceable and I am convinced Mayor Wu is not really satisfied on this point either.

Embassy may wish discuss this matter very informally in Nanking or wait until we have full details re measure before taking any action.
Sent Nanking 462, repeated Dept 735, OffEmb Canton 118.

CABOT

125.0093/2-2449 : Telegram

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

WASHINGTON, March 4, 1949—5 p. m.

299. Reurtel 454 Feb 24.⁴⁸ Dept views situation China too unsettled make positive determination gen return FS dependents, regardless action service attachés returning dependents Nanking. View opinion rptdly expressed by ConGen Shanghai that dependents shld not be returned Shanghai area present, Dept recommends Amb [and] Cabot discuss matter, coordinate views [and] submit joint recommendation re dependents Shanghai personnel desiring return China. This connection Dept will continue maintain dependents Manila for present but urges those personnel not strongly desiring return their dependents China in accordance Deptel 241 Feb 18, consider advisability having dependents returned US.

Re question raised Shanghai's 635 Feb 23,⁴⁸ Amb retains original authority authorize evacuation Emb and Cons personnel including dependents when his opinion situation warrants.

ACHESON

893.00/2-1849 : Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)⁴⁹

WASHINGTON, March 10, 1949—5 p. m.

449. While Dept realizes practical problems to which ConGen doubtless refers (Contel 462 Mar 3 to Emb rptd Dept 735 and Contel 399 Feb 18 to Emb rptd Dept 589⁵⁰) Dept believes desirable avoid statements which might be open interpretation legal moral obligation impartiality between sides China exists on part this Govt or its natls. US has openly generously aided Natl Govt and has never recognized

⁴⁸ Not printed.⁴⁹ Repeated to the Ambassador in China as No. 322.⁵⁰ Latter not printed.

belligerency Commie. This position in full accord internatl law and practice.

Dept had understood Chin Govt does not regard present strife China as "civil war". Emb comment requested whether Sun's⁵¹ reference civil war (third para Contel 742 Mar 4⁵² press summary to Dept rptd unnumbered Emb) indicates change Chin Govt position this question.

If proposed contribution mentioned reftel not legally enforceable tax, ConGen shld so advise Amer natls and shld advise further that they are obligated pay only taxes officially imposed, as provided art 10 1946 treaty and that any case duress shld be reported ConGen.

ACHESON

120.301/3-1249 : Telegram

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

NANKING, March 12, 1949—1 p. m.

[Received March 12—5:32 a. m.]

557. I cannot believe time has yet come when I can recommend general return Foreign Service dependents China, particularly Yangtze basin area. (Deptel 299, March 4, repeated Embassy Canton telCan 40, Manila 269, Shanghai 404.) Political developments within next several weeks may well permit me make positive recommendations this respect. As Dept can imagine, it is not problem which I am permitted forget and I shall make recommendations respect to separated families from time to time as situation warrants.

Shanghai presents somewhat special problem because of large industrialized center coming under attack or prolonged siege. Cabot apprehensive not only about actual period turnover from one regime to another but with respect period Communist occupation immediately following take-over when possible complete isolation metropolis could create intolerable situation inside Shanghai. With respect remaining dependents Manila, however, Cabot feels unable to prevent their return Shanghai their own expense on clear responsibility officer each case and I agree this seems only feasible solution that problem for moment.

Having in mind more complex problem which Shanghai presents with respect to any general return of FS dependents, Cabot and I will keep in close touch and submit coordinated views from time to time as situation develops. We both recognize supreme importance unity

⁵¹ Sun Fo, President of the Chinese Executive Yuan (premier).

⁵² Vol. VIII, "Political and military situation in China", chapter II.

families to welfare efficiency Foreign Service and will continue give this problem constant sympathetic consideration it deserves.

Cabot has seen and concurs in this message.

Sent Department 557, repeated OffEmb Canton 156, Manila 29, repeated Hankow.

STUART

811.3393/3-1449 : Telegram

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

SHANGHAI, March 14, 1949—6 p. m.

[Received March 14—6:33 a. m.]

874. Admiral Crawford⁵³ informs me Marine Battalion now here will be replaced March 18 by another Tsingtao battalion. Since this will result in no net increase number Marines here and is only to prevent those now here from going stale, I see no objection. Navy prefers no publicity since this is another move reduce strength at Tsingtao, so will say nothing here unless hand forced or Department instructs.⁵⁴

Sent Department, repeated Nanking 519.

CABOT

120.301/3-1249 : Telegram

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

WASHINGTON, March 16, 1949—5 p. m.

349. View your 557 Mar 12 Dept cannot agree return dependents Shanghai. If conditions warrant positive recommendation return dependents should be at Govt expense. Fact employee willing pay cost return dependents not influencing factor. Presently Dept disapproves return Shanghai either personal [or] Govt expense dependents mentioned Shanghai's 848 Mar 11, 683 Feb 27⁵⁵ in absence positive recommendations principal officer Shanghai and concurrence Emb Nanking.

Dept reiterates no dependents to return China without Dept's specific approval.

Sent Nanking, repeated Shanghai, Manila, Canton as telCan.

ACHESON

⁵³ Rear Adm. George C. Crawford, Commander of Amphibious Group No. 3 and Task Force 78 at Shanghai.

⁵⁴ In telegram No. 911, March 17, 3 p. m., the Consul General at Shanghai reported: "Navy reconsidered earlier views re publicity on Shanghai relief 9th Marines by 3rd Marines and issued public statement this morning without advising Consulate General." (811.3393/3-1749)

⁵⁵ Neither printed.

811.3393/3-1749 : Telegram

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

NANKING, March 17, 1949—3 p. m.

[Received 11:29 p. m.]

593. [To Tsingtao:] Your 90, March 2, repeated Department 105.

1. Our uniform policy has been to include designated foreign nationals space available basis whenever evacuation Americans occurs. Ambassador designating authority but delegates authority to ranking consular officer on spot who should consult Navy re space available before designating foreigners. All should clearly understand priority given Americans.

2. We consider plan return evacuees ashore after temporary stay on ships impractical due uncertainty whether Communists would agree to landing foreigners from US Navy ships. Best course would seem evacuate to other Chinese port probably Shanghai if still available. However, in view Tientsin, Peiping experience, we do not anticipate last minute evacuation those persons who have refused earlier opportunities to leave exception likely event heavy fighting or widespread anti-foreign rioting.

3. We do not contemplate evacuation Chinese. Their removal from one part China to another no absolute guarantee their ultimate safety from Communists and might even result in more severe treatment should Communists take them later. We have so informed Embassy Chinese Staff and with few exceptions all decided remain Nanking.

Sent Tsingtao 39, repeated Department 593, ComNavWesPac for info.

STUART

393.1115/3-2549 : Telegram

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

SHANGHAI, March 25, 1949.

[Received March 25—6:56 a. m.]

999. Increasing pressure inquiries from American community made advisable release following statement given to local press today. Ambassador and Admiral Crawford approve action. Inquiries have been made of the Consulate General regarding its attitude towards the return of American dependents to Shanghai partly as a result of the return of a few dependents to Shanghai.

Despite the lull in the situation which now prevails, the Consulate General feels that it is still too soon to say that the emergency has

definitely passed. The basic considerations which gave rise to the evacuation warnings issued in November remain unchanged. While it is to be hoped that Shanghai will be spared the hazards of the tragic conflict which has swept over so much of China, this is still uncertain. Americans in Shanghai may face hazards and hardships in coming months whatever the outcome may be of the peace discussions. While temporary visits from nearby places of safety may not be unduly hazardous under present circumstances, it is too early as yet to say that dependents—particularly children—may safely return to this area. The position of those Americans who have remained here for compelling reasons might well be made more difficult by the return of dependents.

The Consulate General is confident that Americans will carefully weigh the above considerations before bringing dependents back. The responsibility for the decision in each case must rest—as in the original evacuation—with the individuals and families concerned. The Consulate General will make a more positive statement as soon as the situation has become sufficiently clear to permit this. All inquiries regarding the return of dependents have been answered in the above sense.

Sent Department 999, March 25; repeated Nanking 588, Canton 207.

CABOT

893.5034 Registration/4-649

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

No. 178

SHANGHAI, April 6, 1949.

[Received April 19.]

I have the honor to refer to my restricted Despatch No. 150 of March 25, secret Report No. 37 of March 28, and secret Despatch No. 167 of April 3[4].⁵⁶

The recent issuance of consular posters to American organizations within the city of Shanghai gives rise to a number of considerations, some of which have already been discussed in the above-cited communications. Of basic importance is the fact that the issuance of consular posters, even though such posters are in the form of mere identification of posted property as being American, carries connotations of commitment to take further consular action and to assume further protective responsibility for the posted property. Such commitments, naturally, assume continuance of the status of the property as American. In the light of this consideration, poster issuance cannot be considered merely

⁵⁶ None printed.

as an isolated act. It is, in fact, a present commitment to protect in the future the property posted.

The Consulate General proposes to issue posters only when the recipient is one to whom the Consulate General would expect to extend full consular protection. While such determinations are difficult to make on a hypothetical basis before the occurrence of actual cases, it seems clear that normally the utmost possible protection within the limits of consular authority would be extended to all organizations which are completely American-owned, regardless of the activities in which an organization may be engaged, provided, of course, such activities are legitimate and are not contrary to American national objectives.

However, there are many organizations which are not completely American-owned and which present problems of determination as to the extent of consular protection which would be justified. In this connection, the following comments appear appropriate:

(1) *Individuals*. It is proposed to issue posters to all individuals who have satisfactorily established their American citizenship and have registered with the Consulate General except those of Chinese origin who may still be considered by the Chinese authorities as Chinese nationals. In this connection, it is to be noted that the laws of China do not permit voluntary expatriation by unilateral act of Chinese nationals. A Chinese must petition the Government for approval of renunciation of Chinese citizenship, and only after such approval is granted does the Chinese Government technically recognize the severance of the ties of citizenship.

(2) *Partnerships*. Partnerships by their very nature involve such intimate relationships among the partners that it is often impossible to divide up the interests of the partners in the firm so as to protect only such interests as are American, when there are also partners of other nationalities. In such cases, the American partner has an undivided and indivisible interest in all property of the firm. The most charitable view would be that the presence of an American partner affects the entire firm with an American interest justifying full consular protection. However, the Consulate General feels that such cases of multi-national firms should be best determined on an *ad hoc* basis. However, the Department's advice would be appreciated, having particular reference to the partnerships listed in Tabulation No. 2 enclosed with Despatch No. 150 of March 25, 1949. For instance, where the partnership is 50% American and 50% Chinese, should such partnership be considered as in the nature of a Chinese-American individual so far as the indivisible firm's interests are concerned?

(3) *Corporations*. The Consulate General is of the opinion that when an enterprise incorporated in the United States is owned by Americans who hold more than 50% of the stock, full protection should be granted in the absence of any other contravening consideration. Where Americans do not hold more than half the stock, protection may still be granted, consideration being given to the following points.

(a) Do Americans own more stock than any other one nationality?

(b) Are the holders of stock so distributed that American stockholders dominate this corporation (as, for instance, by the stock being concentrated in relatively few American hands)?

(c) Is a majority of the stock, including that held by Americans, owned by non-Chinese nationals, such as British, French, etc.?

(d) Is American management dominant in the operation of the corporation?

(e) Is the corporation generally considered as American in the local community?

(f) Does the corporation further U.S.-China trade?

(g) Does the corporation otherwise further American interests and American foreign policy?

Factors in the nature of the foregoing may help in deciding the extent of American interest where financial interest does not exceed 50% and thus aid in determining the advisability of issuing posters or of extending other protection.

Whenever borderline cases occur, the Consulate General proposes (if time and circumstances permit) to refer such cases to the Department with recommendations and then await the Department's instructions. The question of eligibility for posters affords an excellent opportunity of determining appropriate action in specific cases, thereby developing a pattern for deciding other cases, involving consular protective action, which may well arise when time is more pressing.

I should be most appreciative of any general advice and comments that the Department may care to make with reference to this general subject.

Respectfully yours,

JOHN M. CABOT

393.1115/4-1949 : Telegram

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

NANKING, April 19, 1949—4 p. m.

[Received April 19—6:16 a. m.]

793. ReDeptel 461, April 13,⁵⁸ repeated Tsingtao 104. Americans (other than official personnel and their dependents) now in Nanking are almost all engaged essential activity. Those remaining after Embassy warning last November have made their decision and we believe would be unmoved by additional warning. In light these conditions and because of important political considerations, I prefer not to issue subsequent warning to Nanking residents this time. ComNavWesPac so advised by telegraph April 14.

⁵⁸ Not printed.

Embassy assumes operation plan number 786, December 20, 1948 issued by WesPac amphibious force⁵⁹ is still in effect. Under this plan which envisages emergency conditions only amphibious force undertakes establish Embassy guard and maintain naval vessel (APD) at Nanking; it provides for emergency evacuation US nationals and continued defense Govt property ashore under emergency condition D and for withdrawal or embarkation US armed shore forces for own safety under emergency condition E only as final stage entire evacuation operation. Plan further provides for naval escort and gun fire support for evacuation vessels.

In absence contrary advices from ComNavWesPac, Embassy regards cancellation *Diachenko* sailing as decision reached after balancing present relatively peaceful conditions Nanking against risk exchange gun fire (see ComNavWesPac 160153Z to ALUSNA⁵⁹ Nanking, repeated CNO⁶⁰).

Embassy assumes, however, that if emergency conditions contemplated by plan materialize, plan will be executed within means available to ComNavWesPac. Plan number 786 is sole existing plan for emergency evacuation Nanking and is based entirely on presence naval transport at this city.

Under plan APD at Nanking is supply and operations base for Embassy Marine guard. If APD definitely will not return Nanking even under emergency conditions specified in plan, Marine guard should be either withdrawn to Shanghai⁶¹ or reconstituted under amendment to plan as smaller group attached to ALUSNA.

Sent Dept, repeated Shanghai 396 for Admiral Badger.

STUART

393.1115/4-2049: Telegram

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

SHANGHAI, April 20, 1949—5 p. m.

[Received April 20—6:22 a. m.]

1264. Admiral Badger today informed me that following *Amethyst*⁶² incident he may in accordance Washington's instructions to avoid incidents withdraw US Navy units from river before Shanghai is taken by force.

⁵⁹ Not found in Department of State files.

⁶⁰ Chief of Naval Operations.

⁶¹ In telegram No. 818, April 22, 1 p. m., the Ambassador stated: "ReEmbtel 793, April 19. Except for sergeant and five enlisted men who remain as members staff Naval Attaché, entire Marine guard airlifted Shanghai April 21."

⁶² On April 20 the British naval sloop *Amethyst* was fired on by Chinese Communist batteries along the Yangtze River.

He insisted civilian evacuation should be completed before military activities in vicinity Shanghai made it dangerous continue evacuation. He said emergency evacuation plan had been drawn up only with view to internal disturbance and he indicated they could not be carried out in midst belligerent activities. He intimated desirability further evacuation warning.

I pointed out to him this completely new development so far as I am concerned and it is contrary to many points implicit in our earlier discussions. Recognizing, however, that *Amethyst* incident considerably changes premises on which we were planning and that we must now balance danger of serious incident against abandonment American community here at critical moment I feel Department may wish augment to me its previously expressed views. Department will doubtless take into account effect on general situation of withdrawal American naval units before climax is reached in Shanghai and probable desirability acting in concert with other Western powers in this respect.

Sent Department, repeated Nanking 727.

CABOT

893.1115/4-2149 : Telegram

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

SHANGHAI, April 21, 1949—7 p. m.

[Received April 21—6:35 a. m.]

1295. Admiral Badger today sent me a draft telegram to Embassy pointing out incidents with British ships seriously affected Navy's plans evacuate American civilians down narrow Whangpoo in thin-skinned ships. His telegram urged further evacuation American civilians and implied further warning should be issued.

At further conference with him regarding this draft I agreed incidents required reexamination question. I pointed out, however, any announcement naval units might be withdrawn before turnover in city, after what he had announced in December and sending of Marines to Shanghai, would be strongly criticized both by American community and many others. I suggested we should wait to see what attitude Communists take regarding incidents with British and what British (few of whom have evacuated) do thereafter. Badger left question withdrawal all naval units at Shanghai prior Communist takeover more open than he did yesterday; he indicated his decision would depend circumstances and emphasized his primary concern was early completion any civilian evacuation that was to take place plus fulfillment his instructions regarding non-involvement in hostilities.

Sent Department, repeated Nanking 745.

CABOT

393.1115/4-2249 : Telegram

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

NANKING, April 22, 1949.

[Received April 22—5:04 a. m.]

819. As result changed situation Embassy has issued following notice dated April 21 to all American nationals residing Nanking:

“Until recently an American Naval vessel has been stationed at Nanking. It is now stationed in Shanghai. Owing to a blockage of the Yangtze River, interfering with the movement of all vessels, the presence of any US Naval vessel at Nanking at a given time cannot, in the future, be expected.

The Marine Guard at the Embassy, having been based upon ships stationed at Nanking, has accordingly been reduced to a guard sufficient only for the Chancery’s internal security. It will not be available for any protective duties either generally or in connection with evacuation.

American nationals, who may have regarded the presence of US Naval vessels and of the Marine Guard as implying that the United States will furnish either emergency protection or emergency evacuation, should therefore reconsider their position at Nanking. There is no assurance that Nanking will be spared either civil disturbance or military assault. The Embassy is compelled to warn everyone that those remaining must be prepared to stay through any emergency.

Therefore, those who do not so intend should leave Nanking now, while normal commercial means of travel still exist.[”]

Sent Department 819; repeated Shanghai 411.

STUART

393.415/4-2249 : Telegram

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

SHANGHAI, April 22, 1949—6 p. m.

[Received April 22—7:11 a. m.]

1309. British ConGen informs me British as yet have no explanation for incidents on Yangtze involving British warships. Nevertheless repetition of incident in case of HMS *London* over 24 hours after first incident plus fact Chinese Nationals [*Nationalists*] have no warship of comparable class makes it clear Commies responsible for incidents must have known they were firing on British or at least not Chinese Nationalist warships.

Attitude Commies take would of course be vital in assessing significance of incidents. Nevertheless strong presumption incidents were deliberately provoked and Commie High Command could have prevented *London* incident if it had so desired requires very careful con-

sideration questions raised by Admiral Badger in my conference with him on April 20 and 21 re course US Navy should now pursue.

Admiral Badger is clearly right in feeling evacuation of hundreds American civilians in warships now available here if Commies were posted along lower reaches Whangpoo and acted as they did with British warships would be extremely serious affair which would probably result heavy bloodshed among both Navy personnel and civilians and which might have major international repercussions. Such incident would also presumably strengthen hands those in US demanding massive aid to Nationalists. On other hand withdrawal Navy unit before Commies had taken either Shanghai or lower reaches Whangpoo would undoubtedly give rise more insistent charges both in China and US that our policy here is one of scuttle. Such course would be the more difficult to pursue in view Admiral Badger's broad statements made last December re Navy's role in protecting American community Shanghai and after we had sent Marines here with all risks this involved for avowed purpose protecting American community during precisely period which seems be approaching. Also Whangpoo below Shanghai is, unlike Yangtze, international waterway.

Urgency reaching decision this matter is emphasized by reported massive crossings Yangtze in Wuhu-Nanking area, yet I feel two major questions on which decision should be based are still open: (1) what attitude will Commies take about incidents on Yangtze?; (2) what action will British take thereafter? Should I now issue third warning on basis incidents and Commie approach before British have taken any action whatsoever? I feel practical effects might not warrant criticism which this would probably entail. Reports reaching me notably of heavy demand for passage on *President Wilson* sailing April 27 suggest those who feel they can leave are doing so in any case. Question of issuance of another formal warning and final decision on withdrawal of ships from Whangpoo should nevertheless receive urgent consideration even before the above-mentioned points are cleared up since events might not permit effective action thereafter.

Sent Department, repeated Nanking 756.

CABOT

393.1115/4-2249 : Telegram

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

SHANGHAI, April 22, 1949—7 p. m.

[Received April 22—5:45 a. m.]

1310. Garrison Commander today informed meeting of foreign representatives attended by AMA and ANA⁶³ [that] women and children should be removed to safer areas since state of war now exists

⁶³ Assistant Military and Naval Attachés, respectively.

in Shanghai area. He stated in his opinion major assault on Shanghai was not imminent presumably because Communists must regroup after river crossing. He emphasized however Shanghai would be defended come what might and that due to Communist infiltrations riots might break out at any moment.

Remytel 1309, April 22, 6 p. m., repeated Nanking 756, would appreciate immediate authority to publicize General Chen's statement and to emphasize that American community should be guided accordingly.⁶⁴ If granted I shall try to act in concert with Consular colleagues.

Sent Department, repeated Nanking 757.

CABOT

393.1115/4-2349 : Telegram

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

SHANGHAI, April 23, 1949.

[Received April 23—4:47 a. m.]

1315. Following notice issued noon today:

"The Commander of the Shanghai Garrison has informed foreign representatives that Shanghai will be defended come what may. He advised the removal of foreign women and children to safer areas."

The Consulate General has issued two warnings to American nationals suggesting that they leave Shanghai unless they have compelling reasons to remain. It assumes that all those who are not prepared to face the dangers of remaining in a war area have already left. Nevertheless, it is bringing the Garrison Commander's warning to their attention. It wishes, moreover, to point out that the recent incidents on the Yangtze clearly show that American nationals remaining in Shanghai cannot count on safety through emergency evacuation if the situation in Shanghai should become so hazardous as to make it inadvisable to stay.

Sent Department 1315, repeated Nanking 759, Canton 312.

CABOT

811.3393/4-2349 : Telegram

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

SHANGHAI, April 23, 1949—2 p. m.

[Received April 23—8:10 a. m.]

1316. ConGentels 1295, April 21, 1309 and 1310, April 22, and Admiral Badger's ComNavWesPac 221715Z.⁶⁵ As latter reftel shows

⁶⁴ In telegram No. 717, April 22, 4 p. m., the Department replied: "Authority requested urtel 1310, April 22 granted."

⁶⁵ Telegram No. 221715Z not found in Department of State files.

Admiral Badger has reached decision to withdraw heavy naval units from Whangpoo to lower Yangtze as soon as Commies are across Yangtze in force, he has promised me 24 hours' notice before actual withdrawal and plans to maintain contact with Shanghai as long as possible by light craft. He has urged me in view of previous assurances given American community to inform them of Navy's revised plans immediately. I have declined to do so until either instructed by Department or given 24-hour notice in view of international implications this would entail as explained in my previous reftels. Last sentence of my warning to American community issued today (ConGentel 1315) was, however, partly designed to soften blow to community when announcement of Navy's intended withdrawal made.

I have informed my British and French colleagues that we are considering implications of Yangtze incidents on retention of our ships in Whangpoo. They inform me they also have given thought to problem but no decision yet reached re their ships. They agree desirability acting in concert re ships. They do not at moment plan to issue evacuation warnings.

Consular Corps is meeting at 6:30 tonight.

HMS *London* was badly mauled by Commie batteries with three or four turrets out of action and 2 months' repairs required. Admiral Madden in command states *London's* return fire ineffective against well-concealed Commie batteries.

Would appreciate most urgent instructions as to what announcement, if any, I am to make re Navy's plans.

We are reactivating evacuation units Monday. At moment *President Wilson* sailing 27th is fully booked but emergency space on board possibly available. Am investigating possibility of using *General Gordon*. Airlines still not fully booked. Navy will use hospital ship *Repose* now off Woosung if necessary as temporary haven until other transportation available.

Sent Department, repeated Nanking.

CABOT

811.3393/4-2349: Telegram

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

WASHINGTON, April 23, 1949—noon.

733. You are authorized to issue requested warning to Amer citizens Shanghai indicating revised US Navy evacuation plan at such time and in such particular form as you deem best (urtel 1316 Apr 23). In drafting statement you might have in mind possible inability of US Navy ships to return with refugees to Shanghai and therefore make reference

to such contingency. Form of such notice should also indicate that US ConGen will continue to function as usual. Dept wld appreciate receiving text your earliest convenience.

ACHESON

811.3393/4-2449 : Telegram

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

SHANGHAI, April 24, 1949—1 p. m.

[Received April 24—1: 14 a. m.]

1319. Department will, of course, appreciate that change in Navy plans (Deptel 733, April 23,) for second time, and at more critical moment than when AAG⁶⁶ announced in early December its intention to withdraw, has completely scuttled emergency evacuation plan for American community. I am calling a meeting of community leaders tomorrow to discuss what measures, if any, civilians wish to take to assure so far as possible their mutual protection.

CABOT

393.1115/4-2449 : Telegram

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

SHANGHAI, April 24, 1949—7 p. m.

[Received April 24—7: 41 a. m.]

1327. Admiral Badger in conversation this afternoon said that he was studying possibility of modified emergency evacuation plan which would provide protection for civilians essentially as contemplated (mytel 1319).

CABOT

893.00/4-2549 : Telegram

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

NANKING, April 25, 1949—5 p. m.

[Received April 25—10:30 a. m.]

862. [To Shanghai:] Your 771, April 25.⁶⁷ Following messages delivered to Ma Ching-yuen, chairman Nanking Peace Preservation Committee, at 4 p. m. 25th:

"I shall be grateful if you will forward to the appropriate military authority the following message:

"The United States Naval vessels *Eldorado* and *Chilton* are presently at Shanghai on mission of assuring the safety of American nationals in Shanghai against

⁶⁶ Army Advisory Group.

⁶⁷ Not found in Department of State files.

internal violence, and will withdraw from the Whangpoo as soon as they have completed their mission. The commercial vessel *President Wilson* is scheduled to enter the Whangpoo tomorrow, April 26, to sail the following day. Any other neutral ship in the Whangpoo is also using the river on purely peaceful mission.'

"It is hoped that, with this information in the hands of the military authorities, unhappy incidents and possible loss of life may be avoided."

Letter signed by Bacon as US Consul at Nanking and as Second Secretary. Ma stated that he would deliver message to the "high military authorities" whom he did not name, but said had arrived Nanking today.

Sent Shanghai 444; repeated Department 862.

STUART

393.1115/4-2549 : Telegram

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

WASHINGTON, April 25, 1949—5 p. m.

742. ITT⁶⁸ rep[resentative] reports telephone conversation with Shanghai rep Flanley to effect latter has recd what he regards as order from Adm Badger to leave Shanghai. Dept pointed out no Amer official in China has legal or moral authority order any non-official Amer citizen to leave China. You will recall that years ago such step taken in Mexico with result of large claims against US Govt. Dept rptd that it could and would not advise Amer citizens to leave but must of necessity point out danger in situation and suggest that Amers who do not have compelling reason to remain consider departing while transportation means available and indicating that for its part ConGen wld continue to function.

ACHESON

841.3393/4-2549 : Telegram

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

NANKING, April 25, 1949—9 p. m.

[Received April 25—11:07 a. m.]

865. At meeting Chiefs of Mission North Atlantic community this afternoon British Ambassador⁶⁹ raised question of position British warships Shanghai. He reported that he had discussed problem with French Ambassador⁷⁰ and me yesterday and that we had reached general agreement on following 3 points:

⁶⁸ International Telephone and Telegraph Co.

⁶⁹ Sir Ralph Stevenson.

⁷⁰ Jacques Meyrier.

(1) That any decision to withdraw British, French and American naval vessels from Whangpoo should be coordinated;

(2) That vessels should not be withdrawn until after agreement had been reached on evacuation of respective foreign nationals and that evacuation completed;

(3) That foreign warships should thereafter be withdrawn from that area preferably before Communist occupation Shanghai. I had communicated my general concurrence with this outline to Badger and Cabot in Shanghai last night, suggesting they work out satisfactory solution within its framework and in consultation British-French there. (See ComNavWesPac's telegram 250301Z to CNO⁷¹.)

British Ambassador expressed view that involvement in hostilities of foreign war vessels with Communist forces taking over Shanghai would be disastrous and said that, if his colleagues agreed, he would make recommendations in that sense to his Government. We agreed.

Sent Department 865, repeated Embassy Canton 307, Shanghai 447.

STUART

393.1115/4-2549 : Telegram

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

SHANGHAI, April 25, 1949.

[Received April 26—2:28 a. m.]

1342. Following announcement to American citizens has been issued pursuant Department's authorization and further conversations with Admiral Badger:

"As pointed out in the statement issued by the Consulate General on April 23, the recent incidents on the Yangtze require a reappraisal of the plans which have been made for the evacuation of Americans to points of safety in the event that conditions in Shanghai should become so hazardous as to make this appear to be desirable. The commanding officer of the American naval forces stationed at Shanghai, pursuant to this reappraisal and to his instructions not to become involved in China's fratricidal civil war is shortly moving his heavy units from close anchorages in the Whangpoo to the lower Yangtze.

"Contact will be maintained by small craft between Shanghai and the naval units in the lower Yangtze as long as this proves feasible.

"American citizens desiring safe haven aboard American naval units will be processed at the American Consulate General starting immediately and will then be received at the US Naval Annex, 627 Yangtze-poo Road. The evacuation unit of the American Consulate General is being reactivated today. Citizens taking advantage of this facility will appreciate that no guarantee can be given that they will be permitted to land again by the local authorities. The Consulate General will of course continue to function.

⁷¹ Not found in Department of State files.

"Citizens taking advantage of these facilities will realize that accommodations although adequate may not be comfortable. Those not desiring or not able to return to Shanghai will be routed onward by commercial shipping or to Hong Kong or Japan for further routing. American citizens will appreciate that when these facilities are no longer available no further facilities of any kind can be provided by the American authorities for the protection of American citizens in Shanghai and they must be prepared to remain here.

"Citizens may wish to check whether commercial facilities are available either on ships or planes. The Consulate General will have the latest information available regarding such facilities. Attention is invited to the fact that additional space has been made available in the *President Wilson* due to depart April 27."

Sent Department; repeated Nanking 778, Canton 326.

CABOT

393.1115/4-2449

*The Vice Consul at Chungking (McGeary) to All American Citizens in the Chungking Consular District*⁷²

[CHUNGKING, April 25, 1949.]

In view of the further rapid deterioration of the situation in China American citizens including those with compelling reasons to remain are urged to consider seriously once again whether they are prepared to remain in the very likely event of serious disturbances and inconvenience. You are urged to consider whether you are prepared to remain in circumstances in which your access to food supply and sources of obtaining funds might be stringently limited, utility services such as light, water, telephone and telegraph unavailable, and contacts with co-workers, friends and the outside world limited or impossible.

American nationals are reminded that the Consulate does not have the authority to order their evacuation and is reluctant even to recommend it. Our concern is simply to make certain that you are aware of all of the factors which should govern the decision you make.

Persons who have not yet made a decision are urged to make one immediately by which they are prepared to abide in all eventualities. Those who have decided not to leave are requested to review their decisions in the light of the changing situation, the news of the experiences of foreigners under a new government in other parts of China and the experience of the recent period of martial law in Chungking and Chengtu. Those who decide to leave should do so while means of exit are still available. Those who decide to remain should do so in the full understanding that the conditions mentioned above, and con-

⁷² Copy transmitted to the Department in despatch No. 8, April 24; received May 18.

ditions even more serious and unpleasant may soon obtain, and in the event of a change in government the opportunity for the Consulate to render representative or protective services may be limited or rendered impossible.

STANLEY A. MCGEARY

393.1115/4-2649 : Telegram

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

SHANGHAI, April 26, 1949—5 p. m.

[Received April 26—9:30 a. m.]

1368. Neither Admiral Badger nor I have ordered anyone leave Shanghai. Mr. Flanley spoke to ITT referring to final warning issued by ConGen (ConGentel 1342, April 25) and to telephone conversation re key Telephone Co. personnel whom we agreed last December to evacuate in final evacuation if they so desired. CABOT

393.1115/4-2749 : Telegram

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

SHANGHAI, April 27, 1949—11 a. m.

[Received April 27—6:41 a. m.]

1389. Trust Department is considering what effective measures it can take insure protection American citizens and officers in Communist-dominated areas China. Virtual internment our consular officers Mukden⁷³ and now apparently our Embassy staff Nanking⁷⁴ is anything but reassuring spectacle for American citizens and consular staff Shanghai. While I feel that conciliatory policy is wise, I believe it should be made clear we are prepared be firm in cases gross contravention our rights. Manner in which Mukden episode has been permitted drag along plus indications at Tsingtao and Shanghai we are prepared withdraw only in face of force have doubtless encouraged Communists feel exaggerated sense their own strength and importance. Navy withdrawal from Shanghai, while prudent, may well have led treatment received by Embassy. Our prestige has sunk to new low. Same true of British as result Yangtze incidents.

I feel time may have come for positive approach to Communists to indicate we do not intend intervene in civil wars, that we are prepared enter trading relations with them on mutually satisfactory basis and that in due course we expect enter into diplomatic relations with their

⁷³ For further correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists".

⁷⁴ For further correspondence on this subject, see *ibid.*, "The Embassy in China after occupation of Nanking by Chinese".

new government but that, on other hand, we intend stand for no nonsense and that we have means and disposition make effective our displeasure if they continue gross violations international comity.

My next telegram will illustrate one sector in which we can act greatly their benefit or detriment.⁷⁵

Sent Department, repeated Nanking 798, Canton 346.

CABOT

893.5034 Registration/4-649 : Telegram

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

WASHINGTON, April 28, 1949—10 a. m.

780. Dept in general accord position Condes 178, April 6. Present emergency would appear not permit reference borderline cases Dept and ConGen shld in its discretion without strict determination percentage Amer financial interest issue protection posters. Re partnerships Dept suggests posters might be issued if approx 50 percent Amer financial interest unless adverse considerations exist in individual cases. Where Amer financial interest partnership is considerable but less than approx 50 percent ConGen should in present emergency issue posters in its discretion after considering all relevant factors, such as those listed refdes under heading "Corporations".

Dept appreciates info ConGen despatches re type, extent Amer interest ur area. Particularly wishes comment favorably Condes 37, Mar 28 and Condes 150, Mar 25.⁷⁶

ACHESON

195.91/4-3049 : Telegram

*The Secretary of State to the Consul General at Shanghai (Cabot)*⁷⁷

WASHINGTON, April 30, 1949—2 p. m.

812. 1. Maritime Com and shipping cos making representations to Dept for issuance public statement which wld have effect apprising ship operators and masters that due unpredictable nature situation Shanghai ship movements into area shld be undertaken with due consideration of dangers which might be presented. Basis such statement cos believe that more uniform operating procedures could be formu-

⁷⁵ See telegram No. 1388, April 27, 10 a. m., from the Consul General at Shanghai, p. 1008.

⁷⁶ Neither printed.

⁷⁷ Repeated to the Minister-Counselor of Embassy at Canton, the Ambassador in the Philippines, the Acting Political Adviser in Japan, and the Consul General at Hong Kong as telCan 132, 527, 173, and 281, respectively.

lated by masters thereby avoiding confusion resulting from receipt different info from different agents. Operators probably also aim at liberties clause contained bills lading to relieve shipping cos liability in cases of diversion.

2. While Dept wishes make available to masters vessels all appropriate info it is exercising utmost care that statements made will not in any way operate to set in motion the wide applicability of liberties clauses or will otherwise affect war risk insurance clauses or seagoing personnel contracts.

3. Addressees shld be prepared at all times furnish masters or agents with maximum spot-info available concerning conditions Shanghai, port and river approaches, including availability pilots, to assist masters in exercise of due diligence and judgment. ConGen Shanghai shld transmit pertinent info directly other addressees this tel (rptg to Dept) and shld be prepared supply without delay info which might be requested from other missions or vessels making for Shanghai. Addressees cautioned against unintentional issuance any statements which could be construed as indicated pgh 2 above.

ACHESON

393.0015/4-249 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 2, 1949—4 p. m.

[Received 11:29 p. m.]

169. Earlier emergency evacuation plans for Tsingtao were able cover all non-Asiaties plus Filipinos view availability Shanghai as destination for persons unable land other foreign areas without specific permits.

Now and in absence information to contrary it appears such evacuation strictly could be granted only Americans and Filipinos view fact Japan expected be destination any US Navy vessel carrying evacuees.

US Navy will accept for emergency evacuation such foreign nationals as designated by Consulate General but we doubtful whether Consulate General can designate British, French, Dutch, Italians, stateless, Soviets, etc., for initial evacuation to Japan though British, French, Dutch doubtless able proceed thence to national possessions Far East. Consulate General unaware any opportunity for others find safe haven Far East.

Request urgent instructions view possibility need implement emergency evacuation plans within near future. Desire indication whether alien wives, children of Americans included in permission to American citizens enter Japan.

Sent Department, repeated OffEmb Canton, information copy by hand to ComNavWesPac.

STRONG

393.1115/5-349 : Airgram

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

SHANGHAI, May 3, 1949.

[Received May 9—1:33 p. m.]

A-278. April 29 late evening American representative, Yee Tsoong Tobacco Company, reported two American employees of that Company were locked up by laborers, its Pootung factory, demanding certain pay and refusing Americans access to food and water. As Americans were potentially in danger, ConGen immediately brought matter to attention of Chief Secretary, Shanghai Municipal Bureau of Police. Understand matter settled by cash payment up to date due and demand withheld temporarily, probably until next payday.

April 30 Andersen, Meyer & Company, American firm, reported two Americans, China General Edison Company factory, 1012 Changchow Road, Shanghai, were besieged by laborers demanding two months' emergency pay. ConGen requested Garrison Headquarters and Chief Secretary of Police Bureau to protect American lives and property. Company later stated matter temporarily settled by cash payment up to date due and demand held off for time being.

May 2nd United Press representative reported employees demanding six months' emergency pay, and that matter had been taken up by UP directly with Garrison Headquarters and was being referred to its New York head office. He added no consular intervention was deemed necessary.

CABOT

893.00/5-449 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, May 4, 1949—6 p. m.

[Received May 4—2:12 p. m.]

175. [To Nanking:] View conditions stated my telegram 135 to Nanking, 42 OffEmb Canton, 173 Department today,⁷⁸ plus future lack transport except in final emergency, ConGen in agreement with ComNav despatch May 2, quietly by word mouth, advised all non-Asiaties, plus Filipinos, May 12 was deadline for normal naval trans-

⁷⁸ Vol. VIII, "Political and military situation in China", chapter IV.

portation to Japan, Hong Kong and advised those not intending remain regardless to take advantage current offers.

Twenty-one Americans expected leave May 5 and 6 on US naval vessels for Japan, Hong Kong. Anticipate 10 will seek passage later date, leaving approximately 50 here. Only few persons of other nationalities leaving.

Following departure vessels, will report names Americans destined US.

Sent Nanking 137, OffEmb Canton 44, Department 175.

STRONG

195.91/5-449

The Under Secretary of State (Webb) to the Vice Chairman of the United States Maritime Commission (Mellen)

WASHINGTON, May 6, 1949.

MY DEAR MR. MELLEN: Recent informal discussions with officers of the Maritime Commission and direct inquiries from shipping companies have indicated the considerable concern which arises from the imminence of civil disturbances or Communist attacks on Shanghai and the effect which circumstances attendant thereto would have on the safety of ship movements into the area. In this connection for the confidential information of the Maritime Commission, there is enclosed a copy of the Department's confidential telegram of April 30, 1949 to the American Consulate General, Shanghai and other missions which might be called upon to provide information to shipping companies.

The dangers inherent in the situation are revealed in recent cables from the Consulate General, Shanghai, pertinent portions of which are quoted for the Commission's information and such further dissemination as may appear necessary or desirable:

[Here follow extracts from telegrams of April 23 and 25, Nos. 1315 and 1342, printed on pages 1245 and 1249, respectively.]

3. April 28, 1949: "Further stringent measures passed by garrison govern ship movements this area with special permits required before ships allowed enter or leave harbor, load or unload cargo or passengers. Ships failing observe rules will be fired on by garrison and, if possible, sunk."

As of further information to the Commission it should be noted that emergency evacuation of American citizens from Shanghai has been completed. It may be assumed that American citizens now remaining in Shanghai are prepared to remain throughout the emergency.

In view of the foregoing and the dangers to life and property inherent in the situation in Shanghai, it is believed that the Maritime

Commission will wish to inform the shipping companies in such manner as may be deemed appropriate.

Sincerely yours,

JAMES E. WEBB

893.00/5-849

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

No. 242

SHANGHAI, May 8, 1949.

[Received May 13.]

The Consul General has the honor to refer to recent despatches and airgrams reporting mounting difficulties in the maintenance of order in Shanghai. Members of the Consulate General staff are experiencing personal incidents which typify the current situation. Two soldiers recently entered the apartment of one American staff member during office hours and carried off a traveling clock over the protests of the servant in the apartment. On May 5, about 8:45 a. m., three armed soldiers, using the pretext of census investigation, gained entrance into the residence of a Chinese clerk while he was at the Consulate General. Drawing pistols, they forced his sister to open all trunks and wardrobes in the house, departing after 15 minutes with money and a watch.

Another incident occurred at noon, May 5, and was reported by the American staff member concerned in the following words:

"It is to be noted that, at noon today, pickpocket operators were busy along the Bund between the Custom House and Foochow Road. These chaps are so bold that, in my efforts to shake them off, I crossed to the center of the roadway on the Bund into the open, yet three of them followed and accompanied me for one block, with two in front and one behind me. My suspicion could have been nothing but obvious to them even before I left the crowded sidewalk."

To meet the growing lawlessness and the uneasy anticipation of still more serious trouble, the military authorities are continuing to employ forthright measures. Since threat of imprisonment is not an important deterrent under present conditions, severe punishment is being meted out in the form of death sentences whenever the military authorities feel that such is warranted. The enclosed news item⁷⁹ from the *China Press* of May 8, 1949, describes the character of these measures.

⁷⁹ Not printed.

393.1115/5-1149 : Telegram

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

SHANGHAI, May 11, 1949—noon.

[Received May 11—1:53 a. m.]

1597. For Department info. All ships arriving Shanghai boarded on arrival [by] Chinese soldiers.

SS *Island Mail*, operated by American Mail Line, arrived May 10, and has been boarded by 10 soldiers under command Chinese captain who refused master permission visit Consulate General, saying Consulate General should send representative to ship. Crew and passengers also denied permission shore leave. Agency manager reported Consulate General. Representations being made to appropriate garrison authorities against demands billeting troops aboard and refusal master's request visit Consulate General.

Sent Department 1597 ; repeated Canton 434.

CABOT

125.8573/5-1249 : Telegram

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

SHANGHAI, May 12, 1949—3 p. m.

[Received May 12—9:06 a. m.]

1611. Security officer recommends arming American guards with 45-caliber pistols. Appreciate expression Department policy this matter.

CABOT

393.1115/5-1349 : Telegram

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

SHANGHAI, May 13, 1949—3 p. m.

[Received May 14—10:50 p. m.]

Department please pass ComNavWesPac for Admiral Badger.

I greatly appreciate your further offer of cooperation in sending *Repose* to Woosung May 17-21 to evacuate American citizens.

American citizens now in Shanghai fully appreciate potential dangers of remaining here. Nevertheless because of important interests they are here to protect and on basis experiences in other cities when Communists have entered they fully intend with few exceptions to remain in Shanghai during Communist takeover. Very few would now be induced to leave by any offer of evacuation facilities and there are commercial facilities for all who wish to leave.

Reason I strongly urge Navy should remain Woosung until actual takeover is that possibilities of internal explosion in Shanghai perhaps without any Communist military pressure whatsoever are increasing as economic dislocations become more severe. No one can now predict whether there will be internal disturbances and if there are how severe they will be. If anti-foreign feelings should suddenly swell or if populace driven to desperation should make it hazardous for foreigners to remain in Shanghai even in their own houses, ConGen might wish to avail itself at that unpredictable moment of any facilities Navy could afford to get Americans to places of safety. I can imagine situation arising in which it would be definitely more hazardous for Americans to remain in their homes or places of refuge in Shanghai than for them to proceed by whatever means available to Navy ships at Woosung. For these reasons I earnestly hope that Navy ships will remain at Woosung until turnover. Much as I appreciate facilities offered on *Repose*, do not think there is vital need for them under present conditions, assuming other ships remain at Woosung and will await further word from you before making any public announcement.

If *Repose* passing by Woosung in any case preparatory to departing US as I gather from American Naval Attaché and your telegram, I think some Americans might be happy to avail themselves of passages since *President Cleveland* due sail May 25 is already fully booked. Also we would appreciate opportunity to ship US few Americans who cannot afford to pay passage to US.

CABOT

125.8573/5-1249 : Telegram

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

WASHINGTON, May 17, 1949—5 p. m.

955. Dept considers inadvisable defend against or resist large-scale armed aggression by counter-use firearms (urtel 1611 May 12). Primary purpose arming American civilian and Marine guards inhibit or discourage violation premises. Decision arm American guards left discretion officer in charge. Classified material and equipment should be destroyed when necessary rather than defended.

ACHESON

393.1115/5-2549 : Telegram

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

SHANGHAI, May 25, 1949.

[Received May 25—5 : 19 a. m.]

1822. Initial canvass of considerable proportion of local American organizations (those we have been able contact thus far) reveals no

casualties or serious incidents involving Americans as result events past 24 hours.⁸⁰ Nearly all Americans staying in homes mostly in southwest sections of city (ex-French concession) which they generally report quiet now though the scene of heavy firing last night. Organizations thus far contacted and reporting no known casualties to their American staff comprise:

Shanghai Power Co., Stanvac Oil Co., Chinese General Edison Co., National City Bank, Chase Bank, Franklin and Bryan, John S. Potter Real Estate, Andersen, Meyer and Co., *Shanghai Evening Post Mercury*, Shanghai Telephone Co., Yee Tsoong Tobacco Co., Tobacco Products Co., American School, Texas Co., American Club, American President Lines, Northwest Airlines, A. Mfm Hennigson, *China Weekly Review*, American Church Mission, both Northern and Southern Presbyterian Missions, Southern Baptist Mission, American Bible Society, Seventh Day Adventists, American Advisory Committee, Chinese and Foreign YMCA's. Department may wish inform parent organizations.

Sent Department 1822, repeated Nanking 995, OffEmb Canton 536.

CABOT

393.1115/5-2549

The Consul in Charge at Canton (Folsom) to the Secretary of State

No. 164

CANTON, May 25, 1949.

[Received June 6.]

The American Consul in charge in Canton has the honor to transmit for the records of the Department of State, in sextuplicate, copies of letters dated November 16, 1948, April 29, 1949 and May 24, 1949,⁸¹ constituting three warnings issued to American citizens resident in the Chinese Provinces of Kwangtung and Kwangsi included in the Consular district of the American Consulate General at Canton.

As will be recalled the first letter was sent on the basis of instructions received from the American Embassy in Nanking and without parallel action by other powers in the area. The second letters were issued as a part of parallel action by British and American Consulates General located in Canton.

The third warning issued May 24, 1949 was issued after consultation with the British, French, Netherlands and Portuguese Consular Offices in Canton. The British Consul General stated at that time that he had issued a letter on May 19, 1949 requesting British subjects in the area to inform him of their plans and that as a result of replies received he did not consider that he needed to send a third warning. The

⁸⁰ Chinese Communists were occupying the city.

⁸¹ None printed.

other Consuls present stated that the number of their nationals in the area was too small to warrant further action.

393.1115/6-149 : Telegram

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

SHANGHAI, June 1, 1949.

[Received May 31—11:51 p. m.]

1918. Reference my 1822, May 25. Believe all reports now in from American organizations. There has been no loss of American life, some material damage to properties. Shanghai University and China Bible Seminary in close proximity to fighting emerged all safe.

CABOT

125.0093/6-349 : Telegram

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

SHANGHAI, June 3, 1949—4 p. m.

[Received June 3—6:01 a. m.]

1973. With turnover in Shanghai some staff members whose dependents have been evacuated are raising question as to their return. I would be grateful for information with regard to policies which govern this matter. Department will appreciate that prolonged absence of families is definitely hardship. On other hand, I have serious misgivings regarding return of dependents prior to recognition and before we have a clear picture of difficulties we may face in coming months in Shanghai.

CABOT

125.0093/6-349 : Telegram

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

WASHINGTON, June 30, 1949—8 p. m.

1323. Dept inclined share your misgivings regarding return evacuated dependents Staff members Shanghai, Peiping, Tientsin, Tsingtao, Hankow and Nanking, although areas no longer considered field active military operations, until clearer picture obtainable foreseeable difficulties to be faced. Urtel 1973 Jun 3. Views influenced by necessity similar consideration dependents American business representatives residing in affected areas. Believed, however, that situation would be sufficiently clear by the time permit issuing offices established for aliens desiring enter Commie China. When this status reached

return of evacuees should be considered on individual basis subject post's discretion recommendation and determination by Staff member concerned. Dept must be provided with assurances that arrangements have been completed for entry permits before orders can be issued for dependents travel. Dept feels also that officers whose dependents return must agree to remain at their posts for one year after their return or until eligible for statutory leave whichever period is longer. Based on foregoing, Dept will entertain individual requests for return travel authorizations evacuated dependents. In each instance Dept must be informed number date evacuation travel order issued by Emb indicating point origin and destination names all evacuated dependents.

ACHESON

393.1115/7-549 : Telegram

The Consul at Canton (Scott) to the Secretary of State

CANTON, July 5, 1949.

[Received July 6—12:56 a. m.]

218. Eighteen Americans, all missionaries, now resident Kulangsu (Amoy) will remain except for family of four soon departing on transfer to Manila. Those in up-country stations also said not evacuating; some visiting Amoy for vacations. Two American male employees Civil Air Transport, families already evacuated, will leave if situation worsens.

Consular posters left with Dr. Clarence Holleman, informal head of Colony. Group reports no problems; funds sufficient; relations local authorities very good.

SCOTT

II. ARRANGEMENTS FOR EVACUATION OF AMERICANS FROM SHANGHAI ON THE *GENERAL GORDON*; EVACUATION WARNING ON FORMOSA (JULY 7-DECEMBER 30)

893.00/7-749 : Telegram

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

SHANGHAI, July 7, 1949—noon.

[Received July 7—5:48 a. m.]

2642. Pattern of recent events Shanghai disquieting. Following telegram originally drafted before outrageous events of yesterday.⁸²

1. There is no law other than that of Communist military authorities. All codes have been abolished.

⁸² See telegram No. 2628, July 6, 5 p. m., and following, vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter IV.

2. Practice has shown that foreigners have often suffered invasion of their fundamental rights and that there is positive policy of humiliating them. Bredup forced apologize though victim violence. Gould forced apologize for violence even though workers forced way into apartment. In Matheson case Chinese, who was witness to incident, jailed for testifying Matheson struck no blow. In repeated instances workers have physically detained foreigners' employees though in fairness authorities show increasing disposition intervene in such cases. In repeated instances (*Post and Mercury*, Andersen-Meyer) workers with official encouragement have refused agree to permit management to close down under any terms. It shows where separation agreed terms have been onerous (Stanvac).

3. I do not believe on basis of information now available to Consulate General that above pattern is part of deliberate plan of Communists. So far, it appears to me part of normal pattern of revolution.

Labor is restive because economic conditions bad and Kmt⁸³ repression ended. Foreigners suffering because wealthy and as result [of being] under Anglophile backwash their former arrogance. Mao Tse-tung's⁸⁴ eight points⁸⁵ probably sincerely intended but Communists want to put foreigners in place, are not prepared to protect foreigners from paying back of old scores and foment violence against them by official propaganda. Whatever Communist intentions, net effect their actions has been to return Americans to situation existing before 1844 Treaty⁸⁶ and incidentally to destroy basis for 1943 Treaty.⁸⁷ Difficulty is that we now have perhaps 2,000 Americans in Communist-held parts of China and substantial investments those areas. Even if Communists have good intentions, positive action their part is required. Though Communists seem to be increasingly aware of problem they have not yet shown firmness necessary to cope with it. In any case they are in a very difficult situation.

4. Although only a few foreigners have actually suffered serious harm, trend is disquieting. I feel that we must very seriously consider dangers ahead for entire foreign community.

5. Most foreign concerns losing heavily on current operations. With blockade⁸⁸ continuing and rice prices (to which wages pegged) rising rapidly, beginning of crisis seems probable in comparatively few weeks

⁸³ Kuomintang (Nationalist Party).

⁸⁴ Chairman of the Central Committee of the Chinese Communist Party (CCP).

⁸⁵ See telegram No. 1701, May 18, vol. VIII, "Political and military situation in China", chapter IV.

⁸⁶ Signed July 3, 1844; Hunter Miller, ed., *Treaties and Other International Acts of the United States of America* (Washington, Government Printing Office, 1934), vol. 4, p. 559.

⁸⁷ Signed at Washington, January 11, 1943; Department of State, Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

⁸⁸ For further correspondence regarding closure of certain ports by the Chinese Government, see pp. 1098 ff.

as firms exhaust liquid capital or head offices refuse to continue present heavy remittances. Some firms will undoubtedly try to close down; others will seek, if necessary, to abandon operations and local investments; even strongest firms cannot survive indefinitely under present conditions. Foreign utility firms with large local investments, large labor forces, inadequate fuel supplies and crippling rates are particularly vulnerable yet their continued operation essential to other firms.

6. If foreign firms try to close down or are unable to pay their workers at moment of heavy and growing unemployment, a peculiarly nasty situation may well develop. Quite apart from questions of violence and confiscation, there is some fear that when showdown comes foreign nationals may find themselves held here virtually for ransom with approval or acquiescence of Communists' authorities.

7. I must candidly state that, viewed from Shanghai, I consider decision conveyed by Deptel 775, July 1, 6 p. m. to Nanking⁸⁹ to be disastrous. We have certainly rejected opportunity to place foreign viewpoint and problems before top Communists and to establish some local working contacts which are so needed and so lacking in present ominous situation. We may also have placed those Communists favoring better relations with West in impossible situation and general resentment at our rebuff may aggravate dangerous situation developing here. I can only reiterate my warnings to Department that in our China policy we cannot have it both ways. If we are to pursue a positively antagonistic policy towards Chinese Communists, we have no right to leave Americans and their property in Communist-held China subject to Communist retaliation. Their presence here under such circumstances would almost inevitably lead to more incidents which would further yet acerbate situation. I believe under such circumstances it would be better to get all possible Americans out and, if necessary, to pay them for property lost or abandoned. Such a policy would probably cost less than one year of China aid has cost and prevent arising of secondary issues which would unnecessarily complicate our efforts to solve primary one.

8. Although in absence answer mytel 2572, June 30,⁹⁰ comment is perhaps premature. News items suggest that while refusing to recognize Nationalist blockade of Shanghai, we propose to do nothing which in practice will enable American shipping to resume services to Shanghai. Department will, I am sure, appreciate danger that such attitude may awaken resentment and contempt in both Chinese camps and may lessen effectiveness any representations we may make other subjects. Amid welter propaganda that US is paper tiger, we simply cannot

⁸⁹ Vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter I.

⁹⁰ *Ante*, p. 1116.

afford let our own actions make us appear weak. On other hand, I do not feel certain that lifting of blockade would in itself alleviate situation sufficiently to reverse trends noted above.

9. Most of realistic factors which we counted upon to keep Communists in line as regards western interests have been nullified by blockade. It is useless to think in terms of the many sanctions we might impose if Communists behave badly when most of them have already been more effectively imposed by blockade. Whereas in long-term view blockade may bring home to Communists importance of links with West, in short-term Communists are likely to think in terms of acute day-to-day problems. They may moreover discover limited means of getting along without West.

10. Difficulties of situation are increased by psychological gap existing between westerners and Communists and lack of contacts to bridge this gap. While westerners here generally are scared to death and display little of their former arrogance and while I am sure Communists generally want westerners to stay and go on with their business, increasing strains of situation are augmenting dangers of major misunderstanding.

I must earnestly suggest Department that it instruct Clubb⁹¹ to ask whether Communist authorities would permit US Government to send commercial ship or planes to Shanghai to evacuate all Americans willing to leave and would permit such Americans to leave. Request could be based on danger existing for all Americans in Shanghai area as exemplified by fact that consular staff was forcibly prevented for over 9 hours from leaving consular premises in heart of city despite repeated appeals to authorities who were well aware of what was going on. Department will recall that numerous Americans were encouraged to remain in Shanghai as a result of Department's specific instructions and were even promised preference in event of repatriation arrangements. I am hopeful that such a move might at least convince Communists that something must be done to straighten out Shanghai situation although I am somewhat apprehensive about questions Communists face which might be helped by reference to blockade and bombings among dangers.

I must also emphasize to Department that I consider it essential that it have legal means to control all remittances direct and indirect to China. This seems to me only way to control what might develop into a major ransom operation (failure of Communists to promulgate entry and exit regulations is also causing gloomy speculation among foreign communities that they are being held to force recognition or against delivery of Chinese "war criminals").

⁹¹ O. Edmund Clubb, Consul General at Peiping.

11. I feel that there is no use in continuing to hope for the best in our China policy when our previous experience with Communists and cold-blooded analysis must warn us that our hopes may well be unjustified. We hoped for the best in our China aid program and it has ended in disaster. We have now left some rather valuable cards in Communists hands and I am afraid we may deceive ourselves if we think Communists will not use them against us if this suits their purpose. I am also apprehensive that we may become embroiled in a series of petty incidents which awaken emotions in both countries well out of proportion to their intrinsic existence and that this may gravely prejudice at a critical moment what I conceive to be our major purpose in China—so to shape our acts that the future Chinese Government will be responsive to Chinese interests and not subservient to the Kremlin.

Sent Department 2642, repeated Nanking 1464, EmbOff Canton 859, Peiping 192.

CABOT

893.00/7-749 : Telegram

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

WASHINGTON, July 8, 1949—8 p. m.

1373. Urtel 2642 July 7, rptd Nanking 1464, EmbOff Canton 859, Peiping 192. Dept appreciative ur thoughtful analysis Shanghai situation and giving full consideration points raised urtel. However ur statement sec 10 para 2 that “numerous Americans were encouraged to remain in Shanghai as result of Dept’s specific instructions and were even promised preference in event of repatriation arrangements” not in accord facts.

In conversations with business representatives, as indicated Deptel 1691 Nov. 23,⁸² rptd Shanghai 2004, Dept did not specifically encourage Amers to remain Shanghai but merely indicated that no change contemplated in continued functioning Con estabs which wld be available extend what protection and representation possible to any Amers who had compelling reasons remain. (Dept refused in every case define meaning of “compelling”.) Re question further evacuation, Dept assured business, missionary and educational orgs that identical (not preferential) consideration wld be accorded their key personnel with regard evacuation *in extremis* or repatriation fol Commie occupation as ConGen staff in any arrangements which might be made (Deptel

⁸² *Foreign Relations*, 1948, vol. VIII, p. 892.

2078 Dec 2,⁹³ rptd Nanking 1757). Dept made clear, however, that "evacuation *in extremis*" referred to situation possibly arising during interregnum and prior Commie takeover when Amer ships still able proceed Shanghai, and that no assurances cld be given re continuation communications or transportation facilities fol Commie occupation.

ACHESON

893.00/7-1149 : Telegram

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

SHANGHAI, July 11, 1949—4 p. m.

[Received July 11—8:46 a. m.]

2693. ReDeptel 1373, regret I did not make clear in mytel 2642 that I was referring to what was said Shanghai rather than US.

File copies of pertinent telegrams have been evacuated, but if I recall correctly Department expressed concern at message in which I said top employees of Shanghai Power Company wished be guaranteed last minute evacuation, and said that evacuation orders did not contemplate evacuation personnel essential for maintenance vital American activities in Shanghai area. While Consul General gave no specific guarantees beyond those fulfilled when Navy withdrew, and no positive encouragement, impression created by what Consul General said was naturally that key personnel should remain.

Re preference in repatriation, fact that key personnel were promised identical consideration with Consulate General staff, in repatriation arrangements, suggests strongly (and properly) that such key personnel would get preferential treatment in repatriation over those who might remain Shanghai despite lack of compelling reason for so doing. We used this point quietly but effectively to get out numerous families and other persons whose presence here now would merely complicate situation.

I trust my understanding of Department's position was correct and am sorry my statements required it to reply. My thought was merely that we were now confronted with a situation in which we must think primarily in terms of safety of American citizens and the avoidance of incidents which might exacerbate international situation, rather than in terms of maintenance of American activities which in all too many cases are being fast driven to wall in any case.

Sent Department 2693, repeated Nanking 1508.

CABOT

⁹³ *Foreign Relations*, 1948, vol. VIII, p. 907.

893.00/7-1249 : Telegram

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

NANKING, July 12, 1949—4 p. m.

[Received July 12—11:56 a. m.]

1486. ReDeptel 1373, July 8 to Shanghai, repeated Nanking 804. I too am appreciative of Cabot's⁹⁴ thoughtful analysis of Shanghai situation contained in his telegram 2642, July 7 to Department, repeated Embassy Canton 859, Peiping 192. Without commenting specifically on various points raised therein, I should like to emphasize suggestion made in paragraph 10, re repatriation vessels or planes to evacuate all Americans willing to leave. Pattern which has evolved to date, particularly in Shanghai, and to lesser degree in Tientsin, is discouraging for future of American private enterprise in China. Persecution of American businessmen and even US officials in Shanghai since turnover is even more disquieting and points up fact that USA is unable to offer adequate protection to its nationals in Communist China. Response to repatriation ship might well be enthusiastic.

In any event, we feel it is not too early for Department to begin planning and taking preliminary steps to charter commercial passenger vessel or military transport to Shanghai with appropriate clearances Canton Government and Shanghai authorities for repatriation of Americans and friendly foreigners who may wish to take advantage opportunity to leave Communist China. Any such plan would assuredly find great response from diplomatic corps Nanking, many of whom with wives and children now desire to leave ex-capital, but are unable exit China for lack of transportation. We do not suggest that Americans be advised to leave; we think that would probably be unnecessary; but some means of exit should be found for those Americans who made experiment and are now discouraged, frightened and want to go home. (See last paragraph Shanghai telegram 2633, July 6 to Department,⁹⁵ repeated Nanking 1457.)

Re method of approach Communist authorities, it has occurred to us it might better be handled purely on local basis between Shanghai Consulate General and MCC.⁹⁶ As Department knows, Communists insist on local jurisdiction their various MCC's and if Shanghai authorities agreed, there would seem to be no reason to go further. Major effort would be required Canton to obtain assurances safe passage for vessels.

Sent Department 1486, repeated AmEmb Canton 625, Shanghai 829, Department pass Peiping 263.

STUART

⁹⁴ John M. Cabot, Consul General at Shanghai.

⁹⁵ Not printed.

⁹⁶ Military Control Commission (Communist).

393.1115/7-1249 : Telegram

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

NANKING, July 12, 1949—4 p. m.

[Received July 12—7: 11 a. m.]

1487. [To Shanghai:] ReEmbtel 1486, July 12 to Department; repeated Shanghai 829. Before your departure [from] Shanghai, suggest you discreetly canvass few selected leaders American business, educational, religious community to ascertain approximate number Americans who would respond to plan for repatriation vessel. Information will probably be useful if you plan follow up this proposal after your arrival Washington.

Sent Shanghai 830; repeated Department.

STUART

393.1115/7-1449 : Telegram

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

SHANGHAI, July 14, 1949—noon.

[Received July 14—12: 44 a. m.]

2755. Pursuant to Embassy's instructions, have consulted some 20 business and missionary leaders of American community re possibility of sending ship to Shanghai to repatriate Americans. Great majority seem to feel idea should be carried through. No opposition expressed, but some were slightly concerned that presentation of such plan might bring to head virtual hostage situation which many fear. General opinion was several hundred Americans would want to go, but inability get exit permits, protection of investments and similar considerations might substantially reduce number. Various representatives pointed out normal leave backlog was already substantial.

I reiterate my suggestion we should be instructed take up plan with local Communist authorities. Suggest it extremely unlikely Communist authorities would permit even unarmed navy vessel come Shanghai; it would, therefore, be better have commercial ship or ships sent.

Sent Department 2755, repeated Nanking 1548.

CABOT

893.00/7-1649 : Telegram

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

CANTON, July 16, 1949—noon.

[Received July 16—11: 02 a. m.]

Cantel 745. Anticipate no real difficulty obtaining Nationalist Government required permission safe passage either repatriation vessel

or planes (Nanking's telegram 1486, July 12 to Department, repeated Canton 625, Shanghai 829). Foreign Office here has already given indication that it would consider requests to enter closed territories and has stated specifically that *Anchises* will be permitted to depart for Shanghai when ready do so.

Repeated Nanking 491, Shanghai 424.

CLARK

393.1115/7-2049 : Telegram

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

NANKING, July 20, 1949.

[Received July 20—1:10 p. m.]

1565. Third quarterly report Americans residing areas China⁹⁷ follows:

Shanghai as of July 15: Official personnel and dependents 75 men, 29 women, 5 children, total 109; and other Americans registered Shanghai 740 men, 473 women, 258 children, total 1471. Total Americans 1580.

Nanking as of July 20: Official personnel 63 men, 29 women, 22 children, total 114; other Americans 31 men, 35 women, 7 children, total 73. Total 187.

Hankow as of July 1: Official personnel 3 men, 1 woman, total 4; other Americans 137 men, 128 women, 98 children, total 363. Total 367.

Chungking as of July 9: Official personnel 6 men, 4 women, 4 children, total 14; other Americans 66 men, 142 women, 64 children, total 272. Total 286.

Peiping as of July 1: Official personnel 21 men, 16 women, 12 children, total 49; other Americans 60 men, 68 women, 21 children, total 149. Total 198.

Tientsin as of July 1: Official personnel 7 men, 6 women, 1 child, total 14; other Americans 24 men, 16 women, 21 children, total 61. Total 75.

Tsingtao as of July 1: Official personnel 4 men, 1 woman, total 5; other Americans 26 men, 17 women, 4 children, total 47. Total 52.

Kunming as of July 6: Official personnel 2 men, 2 women, 2 children, total 6; other Americans 52 men, 77 women, 43 children, total 172. Total 178.

Taipei as of July 6: Official personnel 20 men, 9 women, 9 children, total 38; other Americans 42 men, 30 women, 12 children, total 84. Total 122.

⁹⁷ For first quarterly report, see telegram No. 51, January 6, p. 1213; second quarterly report not printed.

Tihwa as of July 18: Official personnel 3 men, 2 women, 2 children, total 7; other Americans none. Total 7.

Only military personnel attached to offices of Service Attachés included in official personnel.

STUART

393.1115/7-2149 : Telegram

*The Secretary of State to the Minister-Counselor of Embassy in China (Clark)*⁹⁸, at Canton

WASHINGTON, July 21, 1949—4 p. m.

TelCan 475. In view renewal Commie southward drive, apparently of large-scale character, Dept desires, unless you perceive objection, issuance renewed warnings on urgent basis to all Amer cit[izen]s in Kwangtung, Kwangsi, Fukien and, so far as possible, Kiangsi and Hunan. Dept recommends warning be issued in name of Off Emb [with cooperation of ConGen],^{98a} in view nature proposed warning and as you and staff Off Emb will not be in Canton at time Commie takeover. Suggest text warning be along fol lines :

“Reference is made to the statement issued by the Amer ConGen Canton on Nov 16, 1948,⁹⁹ warning Amer cits residing in this consular district who were not prepared to remain under possibly hazardous conditions that they should plan at once to move to places of safety. In view of the renewal of hostilities in southern China, this warning is now being repeated in order that Amer cits in areas which may be affected by the renewal of hostilities in southern China may give the most serious consideration to the possible jeopardy in which they may be placed should they remain in the areas in question.

“In this regard attention is called to fact that the Chi Commie auths have thus far, in areas under their control, demonstrated in many cases an inability or unwillingness to afford adequate protection to foreigners or to safeguard their individual liberties, particularly in connection with arrest, detention, trial and mob action. Moreover, no satisfactory procedure has thus far been afforded foreigners wishing to secure permits for exit from China or even for travel between points in Commie-controlled China.

“In view of the possibility that communications may be seriously disrupted in the near future, Amers are advised to utilize existing transportation facilities while they are still available.”

Off Emb and ConGen shld furnish Amers current info re travel facilities to Hong Kong and billeting possibilities that port.

⁹⁸ Repeated to the Ambassador in China, the Consul General at Shanghai, the Consul at Chungking, the Consul General at Hong Kong, and the Consul at Kunming as Nos. 863, 1447, 52, 622, and 51, respectively.

^{98a} Brackets appear in the source text.

⁹⁹ Department of State *Bulletin*, January 2, 1949, p. 29.

For purpose notification Kiangsi [and] Hunan Amers see list Hankow's despatch No. 13, April 6, 1949¹ (copy to ConGen Canton). You may wish give initial notice by telegram principal Amer missions remoter areas.

Inform Dept final text of warning prior to release enable Dept arrange simultaneous publicity.

ACHESON

393.1115/7-2249 : Telegram

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

CANTON, July 22, 1949.

[Received July 22—4:11 a. m.]

Cantel 799. Foreign Office volunteers it has no objection should Americans desire depart Shanghai on *Anchises*, safe conduct for which has been given.

Sent Shanghai 449; repeated Department Cantel 799, Nanking 531.

CLARK

393.41115/7-2349 : Telegram

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

NANKING, July 23, 1949—3 p. m.

[Received July 23—8:35 a. m.]

1593. For first time British Ambassador yesterday unreservedly admitted concern of British community Shanghai for their safety and his desire to bring evacuation ship to Shanghai for repatriation of all those who wished leave China. He added that whatever action taken along these lines our two Governments should act in unison and our communities China be given equal facilities. Since Stevenson may not have apprised his Government these views, suggest they not be passed on to British Embassy or FonOff.

We would be grateful for indication Department's views on Shanghai's telegram 2642, July 7 to Department, repeated Canton 859, Embtel 1486, July 12 to Department, repeated Canton 625, Shanghai 829, and Cantel 745, July 16, repeated Shanghai 424, re evacuation ships or planes for Americans in China.

Sent Dept 1593, repeated OffEmb Canton 667, Shanghai 892.

STUART

¹ Not printed.

393.1115/7-2349 : Telegram

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

CANTON, July 23, 1949—5 p. m.

[Received July 23—9:35 a. m.]

Cantel 810. Concur text statement warning American citizens [(]telCan 475, July 21, repeated Nanking 863, Shanghai 1447, Chungking 52, Hong Kong 625, Kunming 51), and suggest following procedures: Consular offices Chungking, Kunming, Canton should notify by telegraph, as Department suggests, principal American missions in remoter areas and follow up by sending covering letter saying Embassy has directed warning, text of which is enclosed, be brought to attention all American citizens. Text can be changed *mutatis mutandis* fit situation Chungking, Kunming districts.

In addition to information regarding reaching Hong Kong, Consuls could add in covering letter that, although hotel accommodations in Hong Kong are difficult to acquire, US naval vessels are in port there and will accommodate at cost, and under usual restrictions to billeting civilians aboard naval craft, any Americans certified to naval authorities by the Consul General in Hong Kong as being unable secure hotel accommodations while awaiting onward transportation. Normal surface and air transportation from Hong Kong to other parts of the world is still not fully booked but should demand exceed space available, US naval authorities are prepared to assist in evacuating Americans from Hong Kong to either Manila or Japan at normal commercial rate.

Unless instructed to contrary, therefore, Consuls Chungking, Kunming, Canton will telegraph principal American missions remoter areas and mail letters [to] individuals in consular districts Tuesday afternoon, July 26, releasing to press text warning for publication China morning papers July 27, which means release US papers afternoon July 26.

Sent Department Cantel 810, repeated Nanking 537, Shanghai 455, Chungking 37, Kunming 9, Hong Kong by pouch 23.

CLARK

893.00/7-2449 : Telegram

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

CANTON, July 24, 1949—5 p. m.

[Received July 24—8:31 a. m.]

Cantel 814. It seems to me we can expect situation Shanghai become increasingly inflammable and dangerous for Americans, Nan-

king's 1593, July 23, repeated Canton 667, Shanghai 892. Confronted with continuance blockade and bombing, we can expect economic situation has deteriorated rapidly. It is only reasonable to expect Communists will continue and enlarge upon their program of vilification of US and inflaming people Shanghai against US for supporting regime that is destroying their livelihood. It seems inevitable to me that at some stage passions will become sufficiently aroused that some small incident ignite inflammable situation causing riots which very possibly will result in destruction American life and property. Such an incident could not but have its repercussions in remainder "liberated" China where xenophobia is always just under surface.

There is every reason to believe Communists are tolerating continuance American institutions and enterprises in China only so long as they serve useful Commie purpose and they will be eliminated in due course.

With increased danger to American lives and property which it seems to me will inevitably result from inflammatory situation being created by Communist propaganda, I agree with Cabot that the time may have come when we should consider urging Americans to review their individual situations in China and consider possible desirability of withdrawal at this time. Very discreetly I have ascertained that Nationalist Government, for its part, would grant safe conduct repatriation vessels.

Sent Department Cantel 814, repeated Nanking 540, Shanghai 458.

CLARK

893.48/7-2549

Memorandum by the Chief of the Division of Chinese Affairs (Sproue) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] July 25, 1949.

Mr. Meade² and Mr. Ford³ of the British Embassy called today by appointment to discuss the question of delivery of relief supplies to Shanghai. Mr. Merchant,⁴ Mr. Freeman⁵ and I discussed the matter with them.

Mr. Meade handed us a copy of a telegram dated July 21 from the British Embassy at Nanking to the Foreign Office and a copy of another telegram dated July 23 from the Foreign Office to the British Embassy⁶ here dealing with this subject. It will be noted that in the

² Charles A. G. de J. Meade, Counselor of the British Embassy.

³ Joseph F. Ford, First Secretary of the British Embassy.

⁴ Livingston T. Merchant, of the Office of Far Eastern Affairs.

⁵ Fulton Freeman, Assistant Chief of the Division of Chinese Affairs.

⁶ Neither printed; for British proposal regarding sending relief supplies to Shanghai, see memorandum of July 20 from the British Embassy, p. 1122.

telegram from the British Embassy at Nanking the British Ambassador suggests restricting the operation of relief ships "to the purely practical one of providing supplies (including rice) and transportation for foreign communities and business organisations and their employees including of course Chinese. Mr. Meade did not know whether the supplies mentioned included fuel but presumed that they did not. The Foreign Office telegram indicates a desire to follow the course recommended by the British Ambassador at Nanking and expresses the hope that the Department of State would associate itself with this action.

We informed Mr. Meade and Mr. Ford that we would refer the matter to our superiors for consideration and give them an answer as soon as possible. In this connection it might be possible to use this British proposal as a means of associating them with us in any plans for the evacuation of foreign nationals from Shanghai. It should be possible to arrange for any evacuation ships entering Shanghai to carry certain supplies, such as foodstuffs, for the foreign community there, including the Chinese employees of foreign business organizations. In the event of such a course, the operation would be primarily for the purpose of evacuation and the relief aspect would be a secondary objective.

393.1115/7-1449 : Telegram

*The Secretary of State to the Consul at Shanghai (McConaughy)*⁷

WASHINGTON, July 26, 1949—7 p. m.

1479. Dept recognizes that situation Shanghai becoming increasingly intolerable for certain Americans and that it may become necessary for US Govt to assist in arranging for evacuation facilities. Dept has also noted statement urtel 2755, July 14 that "great majority" business and missionary leaders of American community feel facilities for evacuation shld be made available.

First step toward arranging evacuation wld appear to be application for exit permits by all those Americans and other foreigners desiring leave Shanghai this time, step which Dept understands must be initiated by individuals themselves. As indicated reftel, number Americans in position evacuate might be substantially reduced because of inability obtain exit permits or reluctance abandon investments. Before transportation facilities cld be arranged, therefore, wld be necessary have fairly firm estimate nr Americans and other foreigners who wld be in position avail themselves such facilities.

⁷ Repeated to the Consul General at Hankow, the Embassy in China, and the Embassy office at Canton as Nos. 45, 883, and telCan 500, respectively.

Dept recommends ConGen discuss matter on confidential basis with principal representative Amer community, perhaps President Amer Chamber Commerce, pointing out above considerations and suggesting that he through business and missionary organizations might get movement for exit permits started, reporting to ConGen re demand evacuation and outcome applications for exit permits. In event Amers encounter difficulty in obtaining exit permits, ConGen shld extend appropriate assistance. As Dept of opinion any evacuation from Shanghai shld be done on multilateral rather than unilateral basis, ConGen might suggest to rep Amer community that Chamber Commerce discuss question with opposite numbers other fon communities suggesting similar action for those desiring leave.

On receipt info re nr Amers and other fon natls desiring and in position evacuate, Dept will in consultation with other fon govts concerned endeavor arrange for suitable transportation facilities (probably ships) passage on which wld be paid by evacuees on strictly commercial basis. Dept wld also on same basis endeavor obtain assurances safe conduct from Natl Govt which, as indicated Cantel 814, July 24, rptd Nanking 540, Shanghai 458, wld likely be forthcoming. This connection, request report action being taken on Cantel 449, July 22, to Shanghai⁸ stating FonOff no objection Amers departing Shanghai on *Anchises*.

Hankow, Nanking requested make similar approach to rep Amer communities informing Dept and Shanghai re demand evacuation and progress obtaining exit permits.

ACHESON

393.1115/7-2749 : Telegram

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

NANKING, July 27, 1949—5 p. m.

[Received July 27—6 : 23 a. m.]

1635 [To Canton:] ReDeptel 475 sent Canton July 21, repeated Nanking 863. Embassy Canton and ConGen may wish in discussing evacuation warning Canton district to assure themselves that American businessmen South China are aware experiences American businessmen Shanghai under CCP regime. In confidential conversations with Americans seeking official advice it would appear appropriate to acquaint them with difficulties American firms are experiencing in Shanghai with respect to labor, finances, forced operation, extortion, et cetera (e.g.: Gould case, *North China Daily News* apology, American-owned public utilities forced charge low rates, borrow from Peo-

⁸ Cantel No. 799 to the Department, p. 1271.

ple's Bank at high interest rate to maintain increased salary and overhead costs).

Sent OffEmb Canton 684; repeated Shanghai 910, Department.

STUART

393.1115/7-2849 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, July 28, 1949—7 p. m.

[Received July 28—10:05 a. m.]

2946. ReDeptel 1479, July 26, evacuation American citizens. Consulate General recommends arrangements be made bring in APL^o transport, *General Gordon*, under safe-conduct September 13 sailing following day. Have discussed problem with Downs, APL local agent, who is wiring urgent recommendation to his principals divert *Gordon* here as indicated. *Gordon* would be scheduled enter Shanghai [garble] mentioned if normal shipping were reopened and could make this call en route from Kobe to Hong Kong with minimum expense. Other APL ships *President Cleveland* and *Wilson* have much smaller passenger capacity 550 each compared 1800 for *Gordon*. *Cleveland* on normal schedule would call here September 1 which probably too early for completion necessary negotiations and *Wilson* September 22 which unnecessarily late. Every day may count if situation continues deteriorate.

Have requested President [of] American Association make immediately canvass American community determine number prospective evacuees. Also consulting consular colleagues obtain estimates probable number other foreign nationals. However, I do not believe we should wait results this survey to open negotiations. Satisfied number wishing leave will be more than sufficient justify call of ship if Communist exit permits forthcoming. Availability permits cannot be determined with certainty until vessel formally booked call here since means and date transportation is required information for application blank. Believe submission large number applications may have salutary effect on Communist authorities and will certainly smoke them out on hostage issue.

Recommend immediate fast tempo negotiations with APL executives who have already been alerted by Downs. If OffEmb Canton can expedite safe-conduct from Nationalists to include personal and household effect evacuees as well as incoming and outgoing mail, project will be greatly furthered. There is risk Communists who argue we are instigators blockade will resent bringing in only one ship. They may

^o American President Lines.

make granting permit for *Gordon* conditional on assurances from APL [that] other ships will be scheduled on defiance blockade if necessary. APL, of course, will not endeavor run blockade. If safe-conduct could be obtained for additional APL ships, that would be desirable but believe all our initial efforts should be concentrated on *Gordon*.

Most serious drawback may be problem paying off servants and other employees American evacuees. The three or four British heads families leaving on *Anchises* tomorrow obliged pay equivalent from US dollars 1,500 to dollars 3,600 as severance bonuses to household servants. We will deal with this vexing problem when we come to it, not allowing it deter us from making evacuation arrangement. Meanwhile I am suggesting to American Association that it discreetly advise Americans planning leave it may be wise start training [trimming?] servant staffs now.

Call of *Gordon* can be canceled on short notice if necessary.

British wish bring in several small "relief" ships at regular intervals from Hong Kong. They think use term "evacuation ship" would be unfortunate in its implications and would prefer some other designation. Call of *Gordon* would not interfere their plans and some British nationals undoubtedly would take passage on *Gordon*.

Preliminary instructions prior to meeting Executive Committee American Association August 1 would be helpful.

Sent Department; repeated Nanking 1650, EmbOff, Canton 925, ConGen, Canton 130, Hankow 57.

McCONAUGHY

393.1115/7-2849 : Telegram

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

CANTON, July 28, 1949—7 p. m.
[Received July 28—10:12 a. m.]

Cantel 845. Am inclined agree with Nanking's 684, July 27, to OffEmb Canton, repeated Shanghai 910, Department 1635, regarding reconsideration by American businessmen of decision remain under Communist occupation. It seems that by remaining they become in effect hostages. However, if Department concurs Nanking opinion, suggest problem be discussed head offices (US) from whence instructions must come to individuals Canton. Unlikely individuals here would take initiative.

Sent Department Cantel 845, repeated Nanking 560, Shanghai 467.

CLARK

393.1115/7-2349: Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, July 30, 1949—4 p. m.

1502. Reurtel 2946 Jul 28, evacuation Amer citizens. Dept has no objection ur proposal call of *Gen Gordon* at Shanghai. Pres of APL telephoned Dept fol receipt tel from his agent Shanghai and informed us APL prepared to cooperate. (In this connection, pls note it was not and is not Dept's intention ConGen take initiative in arranging shipping; Dept's instr also indicated desirability project have internatl character.)

It will be APL responsibility clear with Commie auths questions passage and payment port, etc. charges. It will be Dept's responsibility endeavor obtain necessary assurances safe passage from Natl Govt.

Disadvantage (at any rate initially) employment *Gen Gordon* is unilateral character thereby given, even though other foreigners are booked. Further disadvantage is possible complications with through passengers because jeopardy transit area hostilities. Dept is anxious to broaden plan extent necessary include all foreigners desiring leave. For above reasons, desirability suggested starting off with commercial ships in Far East waters such as Jardines or Butterfield and Swire, Amers and others to go Hong Kong there obtain onward passage homeland.

Key to whole situation is exit permits. Ship as large as *Gordon* cannot put in port without assurance requisite number of people with exit permits in order and it cannot undergo any delay. Far East ships because their proximity, mobility can arrange more flexible schedules.

In any case Amers wishing to leave shld make arrangements passage directly with shipping agents, whether through Amer Assn or as individuals.

ACHESON

393.1115/7-3149: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, July 31, 1949—noon.

[Received July 31—6:10 a. m.]

2976. Following memorial from Shanghai Chamber Commerce for Department and limited distribution to heads important American companies operating China through Chase National City, Bank America quoted verbatim without comment by ConGen. Please pass in paraphrase to these banks:

“Recommendations incorporated this report based following obvious considerations:

1. Until there is fundamental change US-Chinese (either Nationalist or Communist) relationships, atmosphere not conducive development American business in China. Situation American business is not necessarily rendered more difficult due need dealing with particular political party, fundamental problem is dealing with basic Chinese character, traditionally anti-foreign.

2. For foreseeable future, Nationalist Government finished and Communist control rapidly weakening in all quarters except for army with result China is faced with chaos, anarchy.

3. Due dishonesty, ineptitude Nationalists, US economic, military aid misused extent only result has been creation well-armed PLA¹⁰ and widespread hatred for America throughout all China.

4. Last vestige Nationalist resistance taken form blockade Chinese ports and aerial bombardment Chinese cities made possible by American warships, planes, fuel, bombs, ammunition. One result these terroristic tactics is American residents China subjected further hazards by mobs inflamed with anti-foreigner propaganda.

5. American businessmen in positions authority have stayed on in China in attempts salvage their respective companies' assets with approval Department as conveyed through National Foreign Trade Council last autumn.

6. American business subjected continuous destructive pressures exerted by Nationalists, Communists alike since 1945, such sabotage being exemplified by following:

(a) Discriminatory import regulations and unrealistic foreign exchange rates.

(b) Encouragement workers to make unreasonable wage demands, which cannot be resisted as police protection withheld from American nationals.

(c) Refusal permit closing down unprofitable foreign enterprises and insistence under duress of payment wages to workers who perform no productive function and who cannot be discharged for any cause.

(d) Discriminatory punitive taxes against foreign companies.

(e) Establishment unrealistic utility rates designed force such foreign companies into debt to government banks with objective ultimate acquisition.

(f) Demands for funds held by foreign companies against contracts entered into with Chinese companies taken over by Communist authorities.

(g) Compulsory surrender hard currency assets held by American companies.

(h) Insistence on sale imported stocks in worthless Chinese money.

General opinion many American businessmen who fought losing battle in China throughout postwar era is that continued resistance will be costly, dangerous, and that time liquidate and leave China over due. Before this conclusion can be implemented, we must bring to realization government and our respective companies following:

¹⁰ People's Liberation Army (Chinese Communist).

(1) There will be substantial if not total loss all physical assets, including properties, stocks, and in addition contracts covered by letters credit, etc.

(2) There may be appreciable loss deposits held by private firms for account Chinese firms taken over by Communists.

(3) Excessive demands severance pay certain.

(4) Indications there will be demands payment substantial sums which literally definable only as "ransom" extorted either by guarantees, special taxes or some other form levy before exit visas will be granted foreign staff members.

(5) Resident managers American firms hesitate order liquidation their respective companies without head office instructions and assurances key foreign personnel holding valid British [or] European passport can simultaneously be evacuated.

(6) Entire American community without protection, due process law and faced with dangerous possibility food riots, cause for which distorted in terms American inspired, supported blockade by Communist propaganda.

Trend recent events indicates consideration safety foreign staffs American companies China dictates complete evacuation such persons. We therefore respectfully request Department take following action.

(1) Acquaint head in USA American companies operating in China through media banks named first paragraph with facts, opinions stated herein so that positive instructions for evacuation may be given local staffs selected by managements concerned subject approval US ConGen.

(2) Transportation with assurances against attack secured either through negotiation with Nationalists or threat reprisals. Noted that entry American ships [and] airlines to Shanghai approved by Communists; no handicap to operation such services should be countenanced.

(3) Sever relations with Nationalists or in any case withhold further support until American residents in China no longer targets for Communist reprisal against such procedures. Department must realize implications further donations military supplies to Nationalists such as US \$10,000,000 arms program announced yesterday.¹¹

(4) Seek avenues diplomatic approach, viz. International Red Cross, to Communists in order obtain approval mass evacuation of foreign staffs American firms from Communist areas and safe conduct evacuees to ships and planes. Cannot be too strongly emphasized safety Americans who are hostages in this hostile atmosphere depends on unpublicized negotiation directed toward acquisition at minimum cost in "ransom money" (possibly as face-saving gesture grant-in-aid through International Red Cross could be arranged) or Communist commitment grant exit permits with provisions for military protection against Chinese mobs. Bombastic name calling, meaningless threats will only serve make our situation more hazardous and demand unless carefully negotiated would make our position untenable.

(5) Make provisions for evacuation small number selected British, European employees American companies. Particularly important if complete evacuation key American personnel is to be assured.

¹¹ See memorandum of August 15 from the Chinese Ambassador, p. 529.

(6) Indicate [to] pro-Nationalist Congressmen danger to which they are subjecting fellow Americans literally interned in China by diatribes against Chinese Communists.

(7) Order evacuation Americans in Nationalist-held areas to avoid repetition our predicament.

Memo respectfully directed State Department for joint action with limited number companies concerned so that cognizance may be directed [to] inevitability substantial losses material assets more particularly avoid additional losses re personnel.

We particularly ask in development program resolve this problem, Department consult men with postwar experience in China, including John Mokrejs, International General Electric, P. N. Markert, Andersen Meyer, Chas. Ferguson, American Foreign Power, Al Bourne, Stanvac, Russel Smith, Bank America, all now resident USA.

Although complete picture Communist policy procedures yet to be developed, this request appeal forwarded this time as we believe opportunities transmitting confidential information may shortly cease. Urgency, sincerity, seriousness our request can be judged by fact this report is consensus group responsible American business leaders who consider their present difficulties incomparably more hazardous and disturbing than were faced December 8, 1941.

Preparation and transmission this memo unanimously approved by directors Shanghai American Chamber who make no pretense speaking for American missionary [or] other groups who are in similar position and whose administrative heads in USA should also be consulted re this situation."

Sent Department, repeated Nanking 1663.

McCONAUGHY

393.1115/7-3149 : Telegram

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

CANTON, July 31, 1949—5 p. m.

[Received August 3—2:12 p. m.]

Cantel 858. Local managers SVOC and Caltex inform us just received instructions from New York liquidate offices and evacuate entire American staff before Communist takeover, Cantel 845, July 28, repeated Nanking 560, Shanghai 467. SVOC has estimated \$200,000 stock, Caltex \$500,000. Plan unload fastest possible begin evacuation some staff within few days, then gradually reduce until final withdrawal.

SVOC plans put committee Chinese employees in charge property. Caltex working out details. Both expect seek assistance evacuation some equipment.

Sent Department Cantel 858; repeated Nanking 566, Shanghai 473.

CLARK

893.1115/8-149 : Telegram

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

CANTON, August 1, 1949—9 p. m.

[Received 11:25 p. m.]

Cantel 862. Liquidation and evacuation American oil companies reported Cantel 858, July 31, repeated Nanking 566, Shanghai 473, not being made public here for few days. Expected when generally known highly influence other Americans.

Missionaries, however, generally not making any plans evacuate although some known feel unwise remain but unable act without consent home missions. Department may wish discuss problem head offices also (Cantel 845, July 28, repeated Nanking 560, Shanghai 467).

Sent Department Cantel 862; repeated Nanking 572, Shanghai 476.

CLARK

893.1115/8-349 : Telegram

The Consul General at Hankow (Callanan) to the Secretary of State

HANKOW, August 3, 1949—noon.

[Received August 6—3:26 p. m.]

244. Deptel 45, July 26, 7 p. m.,¹² re evacuation. Question academic now since no foreigner may leave Wuhan. No travel regulations issued and no answer yet given several applicants for travel Shanghai, Kiukiang, Kuling and Nanking some submitted requests. Presumably travel regulations will eventually be issued.

There is no American or other demand for evacuation. Business people remain under orders of their firms, while teachers and missionaries have not yet been harassed. Probably ten or a dozen would become interested if vessel were definitely arranged.

Sent Department 244; repeated Nanking 191; OffEmb Canton 121; Shanghai 108.

CALLANAN

893.1115/8-349 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 3, 1949—4 p. m.

[Received August 3—10:53 a. m.]

3002. Regular meetings American Association August 2 authorized President make statement in general support American Chamber's

¹² See footnote 7, p. 1274.

representations (ConGentel 2976 to Department July 30 [31], Nanking 1663) as follows:

"Association appreciates ConGen's efforts obtain transportation for Americans [and] others desiring evacuate. APL plans heard with interest. Due slowness authorities and uncertainty re exit permits, Association feels more than one ship should come Shanghai and in addition other means transport including international airline services and shuttle flights should be used. Probably Communist authorities will not look with favor on entry one or more ships merely for repatriation. To demonstrate US Government not responsible for initiation, maintenance blockade as widely claimed by present regime, very strongly recommend arrangements include facilities for entry, clearance commercial shipments in normal course trade. This will in effect necessitate temporary lifting blockade, making evacuation possible although not materially affecting rapidly deteriorating economic situation Shanghai. Probably in order sell an unlimited quantity exports abroad, Communists will have to readjust exchange rates to realistic levels. This means those cultural, commercial organizations which required remit funds Shanghai defray liquidation costs can do so at realistic rather than confiscatory rate. This connection urged small rice allocation (minimum 10,000 tons) be made available for purchase by organizations requiring funds Shanghai meet liquidation expenses, primarily large payments employees whose pay scale based on rice whose price skyrocketed recently due short supply.

"Association calls Department's attention rapid deterioration situation Shanghai and interior points which increases jeopardy American nationals. Energetic efforts needed lift blockade permanently. Association therefore voted urged Department use every possible means bring this about. Otherwise felt evacuation will be blocked. Tientsin unavailable for exit Shanghai.

"Also urged Nationalist Government be approached view permitting foreign ships other than American to enter Shanghai, especially ships calling Hong Kong, not USA. Appearance this is withdrawal Americans only would be unfortunate. Exhaustion resources supplies necessary maintain local organizations in terms payroll, et cetera, makes general withdrawal advisable.

"To strengthen trading position Americans in Communist areas in arranging withdrawal considered imperative embargo all military aid scheduled but unshipped to Nationalists until all Americans desiring evacuation have been given opportunity do so."

Sent Department, repeated Nanking 1674.

McCONAUGHY

393.1115/8-649 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 6, 1949—4 p. m.

[Received 6:09 p. m.]

3074. ConGen concerned over difficulties obtaining exit permits for official personnel and other Americans, Shanghai. Member staff apply-

ing today at Foreign Affairs Department of Shanghai MCC for permit informed would not accept application until shipping resumed. When applicant stated she had reservation *General Gordon* latter half September, was asked what made her so sure *Gordon* would come here and Department still refused consider application. No Consular staff member definitely assured exit permit. Closest is Vice Consul Peaslee who applied Foreign Affairs Department June 17, finally referred to Bureau Public Security (police) July 8, required produce his guarantee and told permit available when he could supply exact date departure and means of travel. Late July Peaslee called at Bureau Public Security, told must advertise twice in one Chinese language, one English language newspaper that he departing and applying to Bureau Public Security for exit permit. Again assured when date departure known, boat or plane, could pick up permit within 1 day. No certainty that exit permit actually would be forthcoming and no means apply pressure obtain permit. Peaslee's June 17 application requested alternate means of exit via Tientsin but in mid-July Bureau Public Security stated (with approval Foreign Affairs Department) exit from China only permissible for him directly from Shanghai since "no reason go to another port to leave China" despite fact Peaslee had definite letter of booking on ship departing Tientsin. After considerable inquiry in which Peaslee was informed Kmt and imperial[ist?] blockade reason he can't leave Shanghai, that local authorities were not preventing him from leaving but not reasonable go Tientsin to leave since Shanghai [a] port, finally Bureau Public Security clerk stated reason he could not go Tientsin was "there are many agents of organizations unfriendly to New China". Others of ConGen applying exit at various stages lengthy process.

ConGen feels real possibility refuse exit various foreigners Shanghai until blockade broken completely.

Sent Department, repeated Nanking 1704, Embassy Canton 954.

McCONAUGHY

393.1115/8-849 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 8, 1949—6 p. m.

[Received 7:32 p. m.]

3109. Re Deptel 1502, July 30. APL to date has received about 1300 applications for passage on *General Gordon* September 15 to San Francisco of which 255 Americans and 1,045 aliens including DP's.¹³

¹³ Displaced persons.

About 500 applications for passage Hong Kong received with hundreds foreign and Chinese applicants for Hong Kong passage turned away account lack space. APL has filed application Communist authorities for entry permit for *General Gordon* and was told reapply about August 20 when presumably more details re passengers and cargo would be available. Communists obviously more interested in import and export cargo than in passengers. If Nationalist Government issues safe conduct for *Gordon* prohibiting any movement of cargo in or ex Shanghai, questionable whether Communists will authorize entry.

Exit permits still being processed slowly with no assurance final permits except in few rare cases. Chances are substantial percentage applicants will not be able obtain permits before *Gordon* sailing September 15. Application process so involved administrative difficulties would interfere even if Communists had no special intention impede departure foreigners.

I have consistently advised APL representative accept foreign passengers without discrimination and have kept consular colleagues fully informed re APL plans to give international aspect to project. I have made it known we do not consider *Gordon* evacuation ship and we hope follow it up with calls by other American vessels. *President Wilson* will probably be booked call here about September 27 if sufficient inducement and if *Gordon* experience satisfactory. Am working closely with British and expect some American passengers to embark on small British coastal steamers to Hong Kong if they are able arrange projected trips. This will be especially important if *Gordon* reverses usual schedule and calls Shanghai homeward bound rather than en route Hong Kong and Manila. APL agent has already recommended this in order shorten trip for uncomfortably crowded passengers and in order avoid pressure thousands Chinese wishing go Hong Kong who could not possibly be accommodated.

Some people have deferred booking steamer passage in hope NWA ¹⁴ 10 special flights to Hong Kong (ConGentel 2946, July 28) already authorized by Communists will materialize.

APL has issued circular letter to American community announcing prospective arrangement *General Gordon* and inviting applications passage. Their circular letter which was not cleared with me does not sufficiently emphasize contingent nature arrangement. No mention made of serious difficulties which are anticipated re Communist entry permit, Nationalist safe conduct and exit permits for passengers. This unfortunate since hopes have been built up which if not fulfilled will lead to great disappointment and loss morale. I am taking dis-

¹⁴ Northwest Airlines.

creet steps through American Association and otherwise to counter by word of mouth any false optimism and to remind community effort will be made bring in other ships and planes—American and foreign—regardless outcome *Gordon* effort.

Application list for *Gordon* and later ships will undoubtedly grow. Several important foreign enterprises planning remove entire foreign staff. Some mission organizations Central China reducing their foreign staffs up to 50 percent. Some missionaries interior who would like leave on *Gordon* encountering difficulty obtaining transportation to Shanghai account reluctance Communists grant rail travel permits and destructive Nationalist bombing of railroads, especially around Nanchang and Kiukiang.

Canton please inform me re prospects for Nationalist safe conduct *General Gordon* and later APL ships indicating what restrictions, if any, as to nonmilitary cargo and otherwise will be imposed. Situation many foreign firms with acute liquidation problems would be greatly eased if they could import rice on *Gordon*.

APL fully aware possibility *Gordon* call may have to be cancelled short notice. Agent says cancellation short notice would not occasion unduly heavy loss since ship will travel between Kobe and Hong Kong in any event and backlog passengers Hong Kong would cushion effect space cancellations here.

Sent Department, repeated Nanking 1718, OffEmb Canton 965.

McCONAUGHY

393.1115/7-3149 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, August 9, 1949—noon.

1555. Re urtel 2976, July 31, pls pass fol message from reps Amer firms named therein to Amer Chamber of Commerce:

“Your memoir July 31, 1949 was reviewed at closed mtg in State Dept August 4th, attended by reps of: Natl City Bank, Chase Bank, Bank of America, Standard Vacuum, Caltex, Ebasco Internatl, Internatl Gen Electric, Internatl Tel. & Tel. and their reply is as follows:

1. While most questions you present for consideration involve expression policy on part U.S. Govt the reps of above companies feel that first step which shld be taken by Amer companies Shanghai wld be ascertain immed how many their Natls cld obtain exit visas. It was consensus opinion that all individuals selected by their companies for evacuation shld make immediate application for exit visas. We believe fon employees other nationalities shld also take similar steps after checking their respective consulates.

2. With regard transportation, we understand arrangements can be made when requirements known for evacuation Shanghai; however, before arrangements are completed will be necessary know number of persons involved by nationalities. When time comes for actual evacuation no difficulty is anticipated obtaining

safe conduct permission from Nationalist Govt but responsibility for leaving Shanghai will be matter which you will have to work out with local auths.

3. We fully appreciate dire situation under which you carrying on and you may rest assured we will do everything possible to assist from this end. All above mentioned companies, and presumably others as well, will cable such additional instrs their local reps as may be found appropriate, taking into consideration need for utilizing careful wording in open messages.

4. It is presumed the State Dept will reply separately on matters beyond our province.'"

ACHESON

393.1115/8-1149 : Telegram

*The Secretary of State to the Chargé in China (Clark), at Canton*¹⁵

WASHINGTON, August 11, 1949—3 p. m.

TelCan 550. If you perceive no objection and in full consultation with your Brit colleague pls approach FonOff promptly along fol lines:

"Dept has been informed of desire certain members Amer community Shanghai to return US. Dept understands these individuals together with other like-minded fon natls are proceeding with arrangements in Shanghai for exit permits and provision necessary shipping. Dept anxious facilitate their departure and requests, without prejudice its position previously communicated to FonOff re closure ports, FonOff agreement in principle to entry Shanghai, without interference Chi Natl armed forces, ship or ships which may be scheduled for evacuation. It is contemplated that on inward voyage ships wld carry emergency supplies of food and other necessities to be purchased by and used by fon community Shanghai. As foregoing plans progress FonOff will be informed of details ship or ships and cargo."

For your confidential info, it is probable from indications received from Amer community Shanghai that principal use by Americans any supplies shipped in would be for orgs and individuals to meet liquidation needs, primarily payments to employees whose pay scales are based on rice, price which now skyrocketing.

Quoted portion above being communicated Brit Emb here.

ACHESON

393.1115/8-1149 : Telegram

*The Secretary of State to the Consul at Shanghai (McConaughy)*¹⁶

WASHINGTON, August 11, 1949—3 p. m.

1583. Re telCan 550 rptd Shanghai 1582, Nanking 945, Aug. 11. As result mtgs Aug 4 and 5 between departmental officers and reps of

¹⁵ Repeated to the Consul at Shanghai and the Counselor of Embassy at Nanking as Nos. 1582 and 945, respectively.

¹⁶ Repeated to the Counselor of Embassy at Nanking and the Minister-Counselor of Embassy at Canton as Nos. 946 and telCan 551, respectively.

business and missionary groups, as well as urtel 3109 Aug 8 rptd Nanking 1718 Canton 965, which indicates sizeable number Amers and other foreigners will wish withdraw, and in view Shanghai tel 3074, Aug 6, rptd Nanking 1704, OffEmb Canton 954, which indicates Commie auths holding up issuance exit permits on grounds uncertainty of shipping, Dept believes desirable definite booking be made as soon as possible of ship to enter Shanghai for express purpose evacuation foreigners. Third para ur 3109 suggests need of more flexible shipping schedule than afforded by *General Gordon*, which wld be possible if shipping in China waters, e.g., Jardine Matheson or Butterfield and Swire from Hong Kong, were used. Therefore, we believe ConGen shld now suggest to Amer Assoc desirability arranging, preferably in concert other fon communities, booking China coast ship, with confidential understanding with shipping agents that schedule might be subject change, depending on number persons having exit permits. Shipping agents shld then inform Commie auths of definite shipping date with request permission for entry ship as scheduled. Later voyages cld be arranged if demand warranted; greatest need at present moment is to "break the ice", especially to ascertain intentions Commie auths.

Dept concerned that attempts large numbers Chi obtain bookings may delay or even thwart plan, because political complications from either Nationalists or Commie side in connection travel Chinese Shanghai-Hong Kong. For this reason, suggest if feasible evacuation ship question be handled as fon project for foreigners, on basis that movement is for persons not natives of the country wishing to proceed their homeland or to new homes. This is a further advantage of using ship for specific purpose withdrawal. Pls comment this point.

As regards relief supplies for fon community, it shld be possible, if concurrence Natl Govt such shipments obtained through Emb approach, to inform Commie auths such importations are to be made, as inducement permission vessel to enter.

Re use *General Gordon*, Commander 7th Task Fleet suggests that, in view Commie attitude, a large valuable President liner shld not be risked by entry Shanghai or even Woosung, particularly because navigational risks in case arrangements not followed through. Suggestion made vessel remain outside bar or at Alacrity anchorage transporting passengers and belongings shore to ship via smaller vessel. Suggestion that LST ideal this purpose, as many as 900 persons and belongings having been transported one trip. Pls inform for reference purposes availability such craft in Shanghai area for this purpose.

ACHESON

393.1115/8-1149 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 11, 1949—8 p. m.

[Received August 11—11:23 a. m.]

3183. American community deeply apprehensive they may be trapped Shanghai. Apparent impossibility arranging any special flights Hong Kong and inability airlines restore regularly international service while Nationalist air blockade continues virtually rules out air evacuation. No word from either Nationalists or Communist authorities regarding permit for *General Gordon* or later ship. Belief prevalent that Communists will not permit entry unless large tonnage freight brought in, which Nationalists probably would not allow.

APL so far has 1400 applicants for passage Shanghai to US on *Gordon* with only 150 first class and 750 third class spaces allotted. Applicants include 275 Americans, 500 DP's various categories, many of them in transit through US, and about 625 other aliens.

Little action being obtained on exit permits applications. Only dozen or so known to have been issued recent weeks and these apparently provisional. Communists indifferent to general desire foreigners for exit permits, have detailed only 3 clerks to process applicants. Prescribed process almost interminable and expensive account requirement newspaper notices. Can easily be drawn out indefinite if Communists wish to quibble without explicitly refusing permit. Applicants often subjected to long, time-consuming lecture on virtues Communism. Without radical change in procedure and augmented personnel, Communists, even with good will, could not possibly handle existing backlog applications within reasonable period. No present possibility group applications.

Majority American community convinced repeated airlifts with or without safe conduct from Nationalists only feasible means of initiating evacuation. With only few people leaving each day exit visa log jam might gradually be broken. Controversy between Communists and Nationalists as to whether freight should be brought to Shanghai (almost inevitable in case of ship) would be avoided. Daily contact with outside world would restore desperately needed mail service and relieve general feeling of claustrophobia which has plagued many foreign residents since cutoff from outside world 3 months ago. Most Americans firmly convinced that special flights would benefit Communists much less than Americans. Communist agents pass freely anyway between Hong Kong and Peiping-Hong Kong via Tientsin. Airline would not carry freight so would be of negligible economic value to Communists. Communists have orally agreed to request only

small percentage of seats for Chinese citizens. If this agreement not lived up to, additional flights could be cancelled on moment's notice. Automatic suspension of special flights as soon as Nationalist blockade lifted would insure that resumption regular international service would not be deferred by reason of such special flights.

General American feeling seems to be that they do not know in which direction to move until they know more about our Government's attitude on blockade. Many of them believe that if we actually disapprove of blockade we should take measures to have it lifted at least to extent of promptly opening way for relief ships and planes. If, on other hand, our Government believes the blockade, which undoubtedly has an economic death grip on Shanghai if unbroken, is promoting American policy by putting very successful squeeze on hostile Communist regime, Americans should be so informed at least indirectly so that they can prepare to go through a bad time or else try to get out clandestinely. In general, Americans here would sympathize and understand a policy of letting the blockade do its work as part of our cold war on Communism, even though such a policy making innocent suffer with guilty might have disastrous effect on them personally; but they feel they are entitled to know so that they can trim their sails accordingly.

I am counselling calmness and forbearance, pointing out to American leaders Department not unaware of or indifferent to plight American citizens here, but there are other complex factors Department has to consider which cannot be assessed properly from very oblique angle of Shanghai.

Sent Department 3183, repeated Nanking 1745, OffEmb Canton 990.

McCONAUGHY

393.1115/8-1249: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 12, 1949—4 p. m.

[Received August 12—6:40 a. m.]

3194. Re ConGentel 3074, August 6. Today Bureau Public Security limited consideration of exit permits to 30 applicants daily. Informally Bureau states it will also interview applicants who have receipts for their exit permit applications. However, it is abundantly clear that securing exit permits is being made increasingly difficult. Bureau is not prepared to handle any large number applicants. ConGen staff members arriving today half hour before Bureau opened were refused interview because 30 applicants already admitted.

Sent Department, repeated Nanking 1747, Canton 993.

McCONAUGHY

393.1115/8-1349 : Telegram

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

NANKING, August 13, 1949—2 p. m.

[Received August 13—5:47 a. m.]

1775. Local agent APL reports Shanghai headquarters informed him August 11, 1400 reservations already in hand prior to announcement expected call *General Gordon* and that within hour after announcement 1000 additional reservations requested for approximately 100 vacant berths. Number Nanking nonofficial Americans desiring reservations remains only 6. Foreign diplomatic personnel not responding enthusiastically; most are interested travel westward from Hong Kong only (for which no passengers being booked) and others skeptical actual arrival *Gordon* or discouraged by prospects troopship accommodations. Local missionaries have received no instructions quit China and individually continue hope constriction their activities will be sufficiently gradual to allow them function year or more. On other hand, new and killing taxes, including house and land taxes applied without exemption, and enormous rise in prices coal, kerosene, electricity and rice may be deciding factor in many cases very near future. For time being they hesitant make decision and as in past assume continuance Embassy and Consulates warrants their remaining.

In event entry *Gordon* Shanghai prevented by either Nationalists or Communists, Embassy believes such refusal would be sufficient signal for initiating full-fledged official repatriation effort, whether by US alone, Atlantic powers, or UN. Such effort should have fullest publicity at earliest possible date. Embassy believes neither contestant would welcome unfavorable world reaction from refusal permit entry such vessel. At same time Embassy fully supports Chungking's recommendations (Contel 140, August 5¹⁷) on publicity to be given Consulate's closing and further recommends that Chungking and Kunming announce immediately that Consulate will close before Communist approach jeopardizes means of exit. This recommendation based squarely on observed behavior and calculations local missionaries last April and November as well as their present attitude. It is believed that such announcement will not only stimulate timely evacuation south China but have salutary effect on American citizens in occupied area now hesitating make decision.

Sent Department 1775, repeated OffEmb Canton 742, Shanghai 980, pouched Chungking.

JONES

¹⁷ Vol. VIII, "Decision to close Consulates in Nationalist-held China . . .".

393.1115/8-1549 : Telegram

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

CANTON, August 15, 1949—5 p. m.

[Received August 16—2:55 a. m.]

Cantel 953. Left with Vice Foreign Minister Tung Ling *aide-mémoire* containing section in quotes of telCan 550, August 11 and made plea in interest American community for sympathetic consideration Nationalist Government our desire facilitate exit of American citizens Communist China. Dr. Tung said he could approve without reference cabinet entry repatriation ship or ships, but that if any cargo was to be carried matter would have to have cabinet approval. He was most categorical in his insistence that Nationalist Government would not permit anything enter Shanghai which would aid Communists.

My arguments that any cargo entering would be solely to benefit foreign community and that benefit Communists would be purely incidental seemed carry some weight Dr. Tung. He finally agreed endeavor clear with cabinet principle permitting vessels enter carrying cargo, character of which would be subject detailed approval Nationalist Government. In other words, he has agreed recommend cabinet that vessels be permitted carry cargo but proposed ships' manifests will be scrutinized carefully in order determine whether incidental benefit Communists outweighs in mind Chinese Government benefits evacuating foreigners. Dr. Tung cautioned that precedent might be established and lead to unconscionable demands by Communists before authorizing exit permits to foreigners; he insists Communists desire departure foreigners and if convinced there will be no *quid pro quo* will permit their departure under conditions possible of fulfillment.

Will report further when cabinet decision is reached.

CLARK

393.1115/8-1549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 15, 1949—5 p. m.

[Received 6:21 p. m.]

3241. Re ConGentel 2976, July 31 and Deptel 1555, August 10 [9]. Following from American Chamber Commerce [at] Shanghai for Department, banks, firms listed reftels:

"American business community Shanghai appreciates consideration given its memo July 31 and offer cooperation from their compatriots USA. Most large American firms have received instructions their respective principals requiring in general repatriation foreign staffs so far as practicable.

"Basic problem is how to evacuate from revolutionary area which gives no indication establishing orderly government guaranteeing protection due processes law or equal rights Chinese and foreigners before courts, government administrative officers, agencies.

"Due general administrative capacity [*incapacity?*] Chinese cope adequately with modern industrial problems, techniques most evident re labor, industry, finance, administration city size Shanghai, Communists pulled out all organ stops in anti-American, anti-British, anti-imperialist propaganda campaign for sole purpose focusing attention on foreigners to enhance Chinese enthusiasm for civil war, making foreigners responsible for all ills Chinese and blockade Communist ports, thus relieving Chinese of responsibility properly administrate Shanghai at time when problems attendant revolution plus flood typhoons very apparent.

"If orderly withdrawal foreign business to be made possible at minimum cost and minimum personal hazard, partial temporary suspension blockade essential. Continuance blockade will thrust on foreign business task supporting all types labor in Shanghai which now or in past employed by foreign management whether now actively engaged in production or can be economically sustained. Apparent policy local authorities is to make foreign management responsible for welfare, livelihood all direct and contract employees, thereby relieving local authorities responsibility in providing food, employment of Shanghai industrial classes.

"In implementation head office instructions local American companies will endeavor work in consonance with recommendations Department as and when Department's reactions to Chamber's memo July 31 received. Several elements American community believe objective evacuation most effectively realizable by American Association on behalf Americans in general but handling through Chamber, especially critical complex problems key businessmen, in light following considerations: (1) as custodians firm [*garble*] they are especially vulnerable extortion; (2) exit permits probably will not be readily granted to heads enterprises deemed essential by Communists continuity of which Communists feel dependent on foreign leadership, capital; (3) need to evacuate Chinese, foreign staff other than Americans when American management leaves; and (4) heads of firms at mercy of labor now completely out of hand.

"As stressed in reports to head offices, principal problem faced by all Americans is obtaining exit permits which Communists will not grant until exact date departure known. To date less than 25 permits processed (other than IRO¹⁸ refugees), these only tentative subject later confirmation. Alien Affairs Office only accepting 30 exit permit applicants daily. Should large scale evacuation be indicated, no conceivable possibility obtaining exit clearances for key Americans for long time. This confirmed by difficulties experienced by Ambassador and Cabot. Also British Chamber has wired London recommending general evacuation unless lines communication, transportation between Shanghai outside world at least partially restored, assuming 'lifting blockade' not feasible. In event British evacuation, possibilities key

¹⁸ International Refugee Organization.

Americans obtaining exit permits will be immeasurably complicated. This connection please consider following:

"1. If possible, blanket authorization should be secured for Americans to leave China. As Communist regime not recognized, it may be necessary make representation through UN or International Red Cross. Major hazard in establishing exit permit application routine is requirement advertise departure in local press, open invitation to extortion by gangster elements, labor racketeers. Americans unable devise reasons for leaving China deemed valid by hostile Communist officials, hesitate make individual applications for exit permits except as last resort for obvious reasons. Chinese Communists shown by propaganda policies actions they propose force return to them all profits taken from China due foreign business activities over last 105 years since first treaty.

"2. Considered view informed Chinese [and] foreigners alike that no extensive evacuation Americans will be permitted unless Communists receive tangible benefits in return over and above that expected from confiscation assets, excessive taxes, severance pay, etc. Communist demands may involve ransom payment in some form, or might be willing accept some other type bribe or trade such as lifting blockade permitting entry freight they need in conjunction reestablishment passenger services we require.

"3. Evacuation can be most effectively accomplished if done quietly, continuously using both ships and planes operating on regular schedules. This would involve partial suspension blockade making freight, passenger services available to both Chinese, foreigners.

"Due points made, impossible determine number passengers with valid exit permits who desire accommodations information called for paragraph 2 message August 10 [9]. To date 1600 applications for passage for San Francisco received for *General Gordon* alone. No thorough canvass American community made as such action might forewarn, antagonize Communists.

"As prerequisite further planning Shanghai, we need accurate information from Department re following:

"1. Is it feasible obtain blanket authorization from Communists for Americans desiring leave China through UN, International Red Cross, some other agency?

"2. Does Department expect Nationalist safe conduct for evacuation ships and planes; if not, is Department prepared arrange escort by US Armed Forces?

"3. Has Department any reason assume Communists will permit entry ships, planes for evacuation purposes only, i.e. without providing normal freight, passenger services both Chinese, foreigners?

"Without information from Department re above important points, not possible develop effective local solution to evacuation problem. Fully appreciate we are asking confidential information re Department policies. Nevertheless, as individuals enmeshed in increasingly difficult situation due actions our Government, we feel we have right seek clarification Government's attitude especially as majority American businessmen encouraged remain at their posts by Department and assured full support.

"We cannot emphasize too strongly Department should indicate at least to Consulate General whether US Government is tolerant Na-

tionalists' blockade on either policy or legal grounds to extent that attitude will not be modified even to provide evacuation of Americans. If so, we ask Department so inform Consulate General so we may clearly understand gravity our position and plan accordingly.

"Our apprehensions greatly increased by Department's refusal grant permission foreign airlines operate 10 chartered flights out of Shanghai for evacuation purposes presumably on grounds that limited numbers Communists would be carried to or from Hong Kong on these flights. We see no consistency in this attitude as British ships regularly carry Chinese between Hong Kong and Tientsin. We doubt American ships will be allowed entry Shanghai unless they take Chinese passengers. If intent Department is to minimize quantity freight taken to Communists, would seem obvious most effective means providing evacuation transportation within limits that objective would be to approve chartered flights from Shanghai.

"Chamber would appreciate Department making known full content this message to same organizations supplied substance Chamber's memo July 31 so principals will fully understand many obstacles to be overcome before we can comply with evacuation, other instructions given local managers.

"Chamber would appreciate Department's comments re this memo and memo of July 31."

Sent Department 3241; repeated Embassy Canton 1009.

McCONAUGHY

393.1115/8-1549: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 15, 1949—5 p. m.

[Received August 15—1:32 p. m.]

3244. ReDeptel 1583, August 11, repeated Nanking 945, [re] telCan 550.¹⁹ [Garble] Communist authorities have informed APL in writing permission granted for entry and exit *General Gordon* as requested. Letter states details regarding freight and passengers to be brought Shanghai most important to Communist authorities and should be detailed as soon as available.

As of today total of 1600 applications for passage to San Francisco including 35 Americans of Caucasian race and 48 persons Chinese race mostly American citizens. APL agents strongly of opinion ship should reverse usual route and call here homeward bound in order avoid grave complications regarding passengers and cargo demands for Hong Kong. He asks that Killion, President APL, San Francisco, be informed there is definite danger Communist requisition large part available passenger and cargo space to satisfy their Hong Kong requirements unless route reversed. He urges Killion authorize ship call first

¹⁹ August 11, p. 1287.

at Manila, then Hong Kong, Shanghai, Kobe in that order. Nearly all outgoing passenger and cargo space *Edith Moller* 260 net registered tons which sailed last week in defiance blockade was utilized by Communist authorities anxious to get personnel and cargo to Hong Kong.

APL informed by Communists that *Gordon* may bring any and all Chinese passengers to Shanghai but no foreigners.

Authorities still receiving only 30 exit permits applications daily from foreigners. This includes applications for rail travel within country as well as applications for permits to leave China. Facilities totally inadequate (20 characters garbled) before dawn, persons arriving later 6 a. m. are turned away although office does not open until 9. I am using several indirect personal approaches to Communist authorities in effort to have application procedure simplified and clerical force increased so many more applications can be handled daily.

Henry, President American Association, and I both working in support British effort bring in small coastal vessels (capacity 40-50 passengers each) from Hong Kong periodically. Although British disappointed APL not interested in taking passengers to Hong Kong, they may allocate US and other non-British nationals small number places if Butterfield and Swire and Jardine, Matheson able bring in ships. British still do not like term "evacuation ship", believing it will have unfavorable psychological effect on Communists. If *Gordon* does not go from here to Hong Kong, difficulties envisaged by Department should not arise and necessity for playing up foreign evacuation theme will be reduced. If *Gordon* follows original schedule, I agree we must take every available measure forestall ship being filled with Chinese including, if necessary, announcement all spaces reserved for trans-Pacific passengers returning to homelands. Effective demand for first class accommodations will greatly exceed space available if exit visas forthcoming. I believe we should begin making tentative plans now bring in *President Wilson* 2 weeks after *Gordon*.

Communists seem more interested in bringing in industrial cargo already paid for by local firms and diverted Kobe, Hong Kong and elsewhere than in relief supplies such as rice. They have indicated special interest in cotton and chemicals. Undoubtedly rice would be welcome if arrangements for allocation and shipment through commercial channels can be made in short time remaining before *Gordon* sails San Francisco August 28. American Advisory Committee of Church World Service has 600 tons relief supplies, mostly grain, in Hong Kong awaiting shipment Shanghai which might be brought on *Gordon*.

Qualified opinion here both naval and merchant marine unanimously of opinion *Gordon* should not be loaded at Alacrity anchorage or

outside bar. They believe Communists would consider such a sign of distrust an affront to them and would be greatly antagonized. Furthermore what few LSTs are available are in Communist hands (principally BO TRA ²⁰) for military purposes and are completely unavailable for transporting passengers or baggage down river. Only very few tenders available, largest carries only 150 passengers and not licensed go beyond Woosung. Tugs for meeting lighters which would be required handle baggage and cargo also very scarce and crews likely refuse work ships down river (*Anchises* case in point). Transfer passengers probably including many old people, children and women in open roadstead would be exceedingly difficult and dangerous even in moderate swell. Furthermore trip would be quite long, 2 hours being required merely to reach Woosung. Agent considers proposal to load outside bar wholly impractical. He believes Communists will not interfere with departure ship if they give advance authorization to enter port.

AstALUSNA ²¹ has made following comments:

1. No navigational obstructions (mines, sunken wrecks, etc.) are known to be in Whangpoo or Yangtze channel.

2. In April military situation entirely dissimilar, i.e. plot to obstruct Whangpoo channel at Woosung as reported to Vice Admiral Badger was means for preventing departure Kmt evacuation shipping from Shanghai (also concomitant embarrassment to foreign naval units present). No purpose military or otherwise now served to block channel and prevent exit *General Gordon* since blockade is effective from Kmt viewpoint. Guarantees by Nationalists and Communists for safe entry and exit further preclude likelihood of such action.

3. Even if Communists were to permit APL use their commandeered LSTs, LCIs, etc., it is hardly likely those craft would be permitted pass down Yangtze channel to Alacrity anchorage unmolested by Nationalists' naval vessels carrying out blockade. Safe guarantees are for *General Gordon*, not for Communist vessels.

4. If Vice Admiral Badger has his LSTs available, not likely fervid Communists would permit them enter inland waters of "liberated China".

While success of plan still far from certain, prospects look somewhat better than they did last week.

AstALUSNA requests CNO and ComNavWesPac be informed.

Sent Department 3244, repeated Nanking 1769, Canton 1010.

McCONAUGHY

²⁰ Board of Trustees for Rehabilitation Affairs of the Chinese Government.

²¹ Assistant Naval Attaché.

393.1115/8-1649 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 16, 1949—4 p. m.

[Received August 16—6:09 a. m.]

3257. Re Cantel 938, August 13 [14,]²² attitude Nationalist Government toward *General Gordon* entry Shanghai. Important we know at earliest possible moment terms and conditions to be imposed on *Gordon* or other evacuation ship. Term "repatriation vessel" used reftel needs close definition. If Nationalists have in mind giving safe conduct only to specially chartered vessels which will come here empty and take out only passengers proceeding directly to US more or less à la *Gripsholm* of 1942-43,^{22a} our present unremitting efforts bring in *Gordon* and other ships on regular runs are probably wasted.

We are working in dark until we know nature contemplated Nationalist safe conduct.

Sent Department, repeated OffEmb Canton 1014, Nanking 1776.

MCCONAUGHY

393.1115/8-1649 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 16, 1949—6 p. m

[Received August 16—8:31 a. m.]

3264. ConGentel 3241, August 15, transmitting Chamber Commerce memo. ConGen regards memo as somewhat overdoing immediacy threat of labor violence and of general danger foreigners. Some foreign and objective Chinese observers whose views are not tensioned by tremendous problems and justifiable anxieties which beset American business circles feel there has been definite easing in authorities' manifested attitude and treatment local foreigners in past 2 weeks and we can perhaps derive some slight encouragement over:

1. Somewhat less immoderate tone in general press treatment of foreigners and foreign affairs with distinct lessening violence of vituperation.

2. Decrease in serious incidents involving foreigners.

3. Apparent serious intention of authorities discipline labor with limitations (however bad such limitations may be from foreign standpoint).

Believe, however, this factor does not alter essential correctness picture presented by memo or justification for opinions expressed therein in view facts:

1. Improvement thus far indicated, while definite, is very light.
2. Urgent economic pressures blockade [and] air raid effects,

²² Vol. VIII, "Successive moves of the Embassy Office in China . . .".

^{22a} See *Foreign Relations*, 1942, vol. I, pp. 411 ff., and *ibid.*, 1943, vol. I, pp. 73 ff.

Commies' desperate need cash, food, materials, their insoluble problems and population dispersal tasks, with Moscow's pressure and continuing basic hostility American, British Government policies not only remain but may be expected mostly to increase as major impelling factors. Present improvement can only be regarded as precariously temporary, likely change for worse any moment.

3. Very fact of Commies' apparent new determination discipline labor (especially re forcing it accept factory dispersal program) creates new danger explosive disturbances which, if extensive, would certainly further endanger position foreigners already jeopardized by popular resentment over belief we responsible for blockade and other factors causing economic misery.

Sent Department 3264, repeated Nanking 1778, Embassy Canton 1016.

McCONAUGHY

893.1115/8-1749 : Telegram

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

CANTON, August 17, 1949—5 p. m.

[Received 10:58 p. m.]

Cantel 975. Newspapers continue to report *General Gordon* to be diverted Shanghai mid-September with latest report stating Communist authorities have approved call.

Embassy has had no instructions and accordingly has not attempted secure safe conduct for *Gordon* from Chinese Government and will not take up matter unless Department instructs. Advise.

Sent Department Cantel 975; repeated Nanking 639; Shanghai 503.

CLARK

811.79693/8-1249 : Telegram

*The Secretary of State to the Consul at Shanghai (McConaughy)*²³

WASHINGTON, August 17, 1949—6 p. m.

1631. Ref urtel 3212 Aug 12²⁴ and related messages Dept desires clarify its position. Dept has opposed establishment internal air service with Amer assistance in Commie territory and has solicited adoption similar stand by UK and other friendly govts because it believed not in our interest to assist Commies to create internal mechanism of high value to consolidation their political control of area. Dept remains of this view on basis of which it requested NWA to discontinue negot with Commies for such service.

²³ Repeated to the Ambassadors in the United Kingdom and Norway as Nos. 2934 and 366, respectively.

²⁴ Not printed.

Re establishment shuttle service Shanghai-Hong Kong originally proposed by Jardine-Matheson and subsequently by NWA per urtel 2947 July 28, Dept believed and still believes such service would provide Commies easy access to outer air world and hence militate against early restoration scheduled services into Shanghai on established basis. Latter is objective of US Govt and believed likewise to be objective Brit, French and other govts concerned, as well as that of NWA and PAA.²⁵ Dept desires point out however that prerequisite to such scheduled operation wld be assurance unmolested entry and exit by both Nats and Commies since resort to night flights for purpose running "blockade" wld obviously involve undesirable risk incidents. Dept prepared support in any appropriate manner both NWA and PAA in restoration regular services on above basis but frankly doubts early feasibility.

Dept has recognized value proposed shuttles to relieve claustrophobia Shanghai fon community. Dept however has believed that provision facilities for evacuation is the first objective and could best be accomplished by surface vessels and as you know has been active this connection. In light increased pressure for evacuation, contd uncertainty safe passage for ships and disturbing delays grant exit permits by Shanghai Commies, Dept entirely prepared reexamine air shuttle possibilities with exclusive emphasis on evacuation fon nationals from Shanghai. For such operation however approval both Nats and Commies clearly desirable if not in fact essential. Accordingly any such plans shld be projected on basis most likely to be acceptable to both Nats and Commies, which in Depts view wld be specific number special flights from Shanghai to Okinawa by NWA and/or PAA. Dept on your recommendation will immed seek safe passage from Nat Govt for any definite proposal such service. Similarly prepared attempt facilitate special shuttle by these lines or joint air service with Jardine-Matheson or other sponsorship from Shanghai to Hong Kong provided emphasis and operation in fact clearly based on evacuation. Dept. however dubious securing Nat approval to Hong Kong flights on any basis acceptable to Commies and vice versa.

You are authorized to convey gist foregoing in confidence to NWA and PAA reps, Committee Amer Association and, to extent applicable, to Jardine-Matheson.

ACHESON

²⁵ Pan American Airways.

393.1115/8-1649: Telegram

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

WASHINGTON, August 18, 1949—2 p. m.

TelCan 595. Re Shanghai's 3257, August 16, rptd OffEmb Canton 1014, Nanking 1776. We suggest OffEmb make clear to FonOff that proposed ship or ships will likely be commercial vessels. If *Gordon* or *President Wilson*, they wld call Shanghai on regular voyage.

Dept suggests undesirable use expression "safe conduct" in discussions or correspondence re withdrawal project, as phrase usually has special connotation in connection blockades. Suggest use "assurance ship will not be molested by Natl Govt (or Communist) forces".

ACHESON

393.1115/8-1849: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 18, 1949—8 p. m.

[Received August 19—12:14 a. m.]

3321. Re American Association statement, Contel 3002, August 3, ConGen suggests as cash remittances unusable for purchase foreign imports for duration blockade resulting in highly unrealistic foreign exchange rate and as Shanghai present need for food greater than for cash remittances, Department explore with British possibility obtaining quarterly rice allotment, say maximum amount 30,000 tons, from IEFC²⁶ for purchase by American[s,] foreigners, other (including Chinese) organizations Shanghai to pay off staff, liquidate firms and meet growing needs for food, to be made available in monthly installments 10,000 tons each October, November, December for delivery by American, foreign "evacuation" ships.

Delivery rice would demonstrate fallacy Communist line US, British backing Kmt blockade, would provide token food imports for loyal employees American, foreign firms reducing staff for closing down due intolerable Communist labor policies, attitudes and lack business due blockade, could be handled as "imports with self-provided exchange", would cheapen costs labor payoff by 50 percent, and would deprive Communist and Chinese control over foreign exchange, eliminating possibility exchange would be used for military or other purposes undesirable from standpoint US economic policy.

²⁶ International Emergency Food Council.

ConGen notes suggested monthly allotment 10,000 tons only one-seventh normal monthly rice consumption Shanghai or one-quarter former ECA monthly rice ration. Wheat, other grains no substitute for rice Shanghai as wages here pegged rice directly or as major component parity deposit unit. First quality rice Shanghai selling retail for about US \$500 per ton; is about 200 for equivalent grades supplied by ECA.

If proposals deemed feasible, desirable, please advise so ConGen can definitely ascertain local feasibility, work out technical problems re import procedure, storage, purchase problems, use rice payrolls, etc. While rice previously duty-free, possibility local authorities might impose arbitrary import duties on shipments consigned foreign organizations. However, Church World Service supplies reports Chinese Customs after long negotiations released 5,000 bushels wheat flood relief purposes duty-free August 6, although wheat subject import duty for commercial imports.

In view several reliable, sober-minded American businessmen, not even rice shipments in amounts indicated might be sufficient "bait" to obtain Communist permission departure foreign employers *Gordon* or other evacuation.

Proposal might offer practicable solution Gould-Miner case.²⁷ Please pass C. V. Starr in Department's discretion for consideration should present negotiations collapse.

Sent Department; repeated Nanking 1792.

McCONAUGHY

893.1115/8-1849: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 18, 1949—9 p. m.

[Received August 18—12: 58 p. m.]

3322. Following Consulate General's comments regarding American Chamber Commerce memorandum sent telegram 3241, August 15.

Substance Deptel 1583, August 11 conveyed orally to Chamber's Board of Directors August 14, also Department's representatives [*representations*] at Canton regarding safe conduct *Gordon* and exchange messages regarding chartered flights Shanghai-Hong Kong.

Consulate General pointed out unlikelihood obtaining blanket permit Americans desiring leave Shanghai whether negotiations undertaken by UN, International Red Cross, other agencies mentioned, refusal Communists accept consular representations. Understand IRO

²⁷ For correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter IV.

has arranged clearance IRO refugees [garble] 50 which might prove helpful precedent in emergency.

Consulate General impressed by need for *quid pro quos* to give case American evacuees bargaining strength. Understand about 30,000 tons freight destined Shanghai stranded Hong Kong alone plus substantial quantities raw cotton, other commodities off-loaded Japanese ports in addition to cargoes in USA paid for but unshipped. Setting aside legal questions regarding title, ownership or use foreign exchange provided by Kmt Central Bank China, Communists and people Shanghai look upon merchandise as belonging here since paid for out of Shanghai exports remittances here and essential keep Shanghai industry functioning. They feel delivery to Kmt would in very real sense deprive people Central China fruits their labors for private benefit privileged few Kmt-ers who abandoned Shanghai connections. This view particularly pertinent regarding CTII²⁸ cotton/yarn exports financed by Central Bank in order buy raw cotton abroad to keep Shanghai cotton mills functioning. Pressure on foreign banks Shanghai to cancel drafts representing CTII cotton/yarn exports in favor fiscal agents abroad of Communist Bank China to pay for raw cotton very strong. Shanghai branch Chinese Banking Corporation Manila removed as "appointed bank" due refusal pay CTII draft cited paragraph 2 daily economic telegram 3218, August 13.²⁹

As bargaining device encourage free issuance exit permits and facilitate entry *Gordon*, other evacuation ships, Department may wish encourage APL San Francisco to arrange pick up stranded American goods already paid for but off-loaded Hong Kong, Japanese ports, also goods USA awaiting shipment Shanghai whether paid for before or since Shanghai take-over. In view Chamber assurances regarding delivery stranded cargoes by evacuation ships probable essential prerequisite Communist clearance American nationals in wholesale lots.

As further "bait" to facilitate evacuation, Consulate General feels feasibility "rice allocation scheme" described ConGentel 3321, August 18, should be explored with British who would be chief beneficiaries as Jardine's alone remitted some 100,000 lbs. sterling to cover July overhead. American public utilities deficits now covered by loans credits from Bank China and People's Bank as head office not willing remit funds Shanghai cover operating losses. American oil companies subsisting by controlled sales Shanghai stocks. Other American firms feel imports rice on own account too complicated for use as currency in meeting payrolls. However, attitude American business might change once merchants' stocks depleted and American mission or-

²⁸ China Textile Industries, Incorporated.

²⁹ Not printed.

ganizations believed interested. ConGentel 3137, August 9³⁰ suggests A. C. Pattison Fed. Inc. USA might be interested handling rice purchases deliveries Shanghai for other American firms, organizations with payment abroad if rice obtainable through IEFEC.

In addition to *Gordon*, Consulate General feels APL should now apply Communists for entry *President Wilson* on normal schedule due Shanghai October 4 with intimation consideration would be given entry two scheduled American ships monthly depending on Communist attitude toward foreign nationals in interim and that American Association seeking British cooperation for minimum two British coastal ships monthly Shanghai in addition to NWA chartered flights to Hong Kong for which Communist approval granted. (Please note *Rum River* still in Hong Kong awaiting favorable opportunity deliver fuel oil badly needed by Shanghai Power Company.[])

Consulate General appreciates concept "breaking blockade" psychologically bad but feels above proposals should not be viewed in that light as effects of such measures on economy Shanghai would be marginal only, entirely insufficient to meet Shanghai needs. Consulate General believes, however, such measures essential if evacuation is to succeed and safety remaining American nationals is to be assured and that program must be sold to Communists [as] "resumption normal communications with outside world" and to American public and Kmt as "temporary easing blockade for safety, welfare entire foreign community Shanghai and for humanitarian reasons". Unless substance above proposals acceptable to all concerned, note British Chamber recommendation for "immediate evacuation ship like Americans", ConGentel 3215, August 13.³⁰ This connection Keswick, Jardine's *Tai-pan*, recently expressed fear if lines communication Shanghai-Hong Kong not partially reestablished by periodic calls American, British ships prior fall Canton, position Hong Kong might be seriously jeopardized by Communist action similar Hong Kong boycott 1925-1926.

Some experienced American observers Shanghai doubt whether even above relatively generous inducements would be sufficient alter basic Communist anti-American policy or even to assure exit permits for all key American personnel desiring to leave. Hopkins [of] Shanghai Power and others feel *modus vivendi* can only be obtained, if at all, by high level talks in Peiping.

Consulate General feels Chamber slightly overstressed immediate gravity labor situation and observes only slight deterioration either

³⁰ Not printed.

in economic or political conditions might rapidly lead to problems fully justifying Chamber's fears.

Please pass Ambassador and Cabot.

Sent Department 3322, repeated Nanking 1791.

McCONAUGHY

393.1115/8-1749: Telegram

*The Secretary of State to the Chargé in China (Clark)*³¹

WASHINGTON, August 19, 1949—11 a. m.

TelCan 598. ReCantel 975 Aug 17, rptd Shanghai 503, Nanking 639. While APL has indicated *Gen Gordon* can be diverted Shanghai to arrive mid-Sept, only info we have re Commie permission enter that port is Shanghai's 3244 Aug 15, rptd Canton 1010, which indicates Commie auths require further detailed info.

TelCan 550 Aug 11 requested FonOff be asked agree in principle unmolested entry ship or ships. You shld continue action on this basis, but may inform FonOff *Gordon* voyage offers earliest opportunity Shanghai call and since *Gordon* departing San Francisco Aug 28, early action our request highly desirable. You will be informed if and when *Gordon* entry appears assured, through clearance with Commie auths and obtention adequate number exit permits to justify call, at which time you shld request specific clearance for vessel. Provisional itinerary *Gordon* is Yokohama, Manila, Hong Kong, Shanghai, Yokohama, San Francisco.

Pls report any knowledge you have character of British approach to FonOff, particularly re cargo.

ACHESON

883.801/8-1949: Telegram

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

CANTON, August 19, 1949—3 p. m.

[Received August 19—4: 23 a. m.]

Cantel 991. Orally informed by FonOff Nationalist Government agreeable in principle to repatriation vessel and to inclusion some cargo (telCan 550, August 11, repeated Shanghai 1583; Nanking 945). As I have previously reported, Nationalist Government is determined obtain fullest possible advantage from blockade. It has nevertheless agreed to importation certain items to be purchased and used by foreigners, but insists on prior approval cargo carried

³¹ Repeated to the Consul at Shanghai as No. 1649.

and will desire board vessel examine manifest before its entry Shanghai. No cargo will be permitted be exported from Shanghai on outward voyage.

In answer my inquiry as to principles which would guide approval or disapproval of cargo, was informed that while Government would not permit importation articles direct benefit Communists, it would permit limited importation sufficient make visit vessel feasible even though such importation were of indirect benefit to Communists. In other words, importation must be kept to minimum and to those things essential to obtaining Communist approval entry vessel. If Communists' demands too great, Nationalist Government will refuse safe conduct.

Sent Department, repeated Nanking 643, Shanghai 507.

CLARK

893.00/8-1949 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State ³²

SHANGHAI, August 19, 1949—5 p. m.

[Received August 19—5 : 43 a. m.]

3341. Attempted bombing customs lighthouse tenders August 18, 3 p.m. (ConGentel 3311, August 18 ³³), illustrates essentiality prompt assurances responsible authorities Canton and Taipei safe conduct, noninterference proposed call *Gordon* September 17 if withdrawal Americans on that vessel to succeed. Safe conduct given by Chinese Nationalist Government Canton probably insufficient protect evacuation vessels from bold daylight aerial attacks based on Taiwan unless Generalissimo notified and his personal assurance obtained.

Sent Department; repeated OffEmb Canton 1029.

McCONAUGHY

393.1115/8-1849 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, August 20, 1949—4 p. m.

1668. Reurtels 3321 and 3322 Aug. 18. You will now have read Canton's 991 Aug 19 rpted Shanghai 507 Nanking 643, which indicates restricted nature importations Chinese Gov would permit if assurance safety of vessel is to be secured. In lending assistance withdrawal efforts by Americans, aim Dept and field offices should be directed to evacuation as many Americans as can obtain exit permits. While it recognized

³² Text printed from corrected copy received August 19, 11 p. m.

³³ Not printed.

that imports rice and other supplies in sufficient quantity to meet needs entire foreign community wld be highly helpful, question of quantity shld not be allowed to become an obstruction to entry of vessels. Present operation arises from demand Americans and other foreigners to leave China and has not involved question of imports to sustain business activity. Imports for specific purpose extricating Americans wld appear be subject to whatever limits Natl Govt finally placed on those imports.

Fifth para urtel 3322 re "Chamber assurances re delivery stranded cargoes by evacuation ships" not clear, but wld appear be attempt at commitment as to nature and quantity cargo to be carried by incoming ships. In this connection Dept particularly desires ConGen take no steps which might encourage Commie auths to believe large quantities can be imported, in view lack of assurance this can be done. Any encouragement this end might lead to even greater Commie demands. We believe you shld make clear to Amer Assn, Chamber of Commerce and APL agent that there is no reason for being sanguine that large-scale supplies will be brought in.

Re third and fourth para your 3321 Dept does not intend ConGen take responsibility for import arrangements; it must be made plain *Gordon* is not a repatriation ship but a commercial vessel making a call subject to such practical arrangements as can be made by shipping company and passengers. Arrangement for purchase and shipment supplies at outside port would be responsibility interested persons, but relationship of character and quantity any such imports to problem of specific Nat approval vessel's call must be recognized. You may wish consider suggesting to American Association it may want to act as collection point for all import orders desired to be placed by Americans and brought in by *Gordon*, thereby enabling you inform Off Emb for communication to Nats nature and size expected cargo. Amer Assn may also wish coordinate its efforts this regard with other national groups.

Dept has question entry *Pres Wilson* in mind, although its available space Shanghai will likely be small, APL informs us.

ACHESON

393.1115/8-2249 : Telegram

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

CANTON, August 22, 1949—6 p. m.

[Received 6 : 44 p. m.]

Cantel 1001. Discussed at Foreign Office again today question repatriation ship and outlined plans re *General Gordon* and *President*

Wilson (telCan 598, August 19, repeated Shanghai 1649, Nanking 987). Chen Tai-chu, Director American section with whom I talked and who is thoroughly familiar with subject, questioned whether use *General Gordon* or *President Wilson* would meet with approval Nationalist Government. It had been Government's idea, he said, that there would be one vessel only for fear that if it were known in advance there might be others, prospective repatriates might delay departure. Nationalist Government preferred approve passage single vessel and consider any subsequent request on its merit. He reiterated Nationalist Government must approve ingoing cargo and that outgoing cargo would not be permitted. He said I should receive note next day or so outlining full position Nationalist Government, but in meantime I should know that Nationalist Government would plan board vessel as it approached Chinese waters and after satisfying itself just unauthorized cargo was not carried, vessel would be escorted by Chinese naval craft to vicinity waters under Communist control and similarly would be met on outgoing voyage to assure no outgoing cargo carried.

He confirmed what I have reported previously that Nationalist Government is prepared permit reasonable amount indirect benefit to Communists which is incidental main purpose obtaining departure from Chinese [*China?*] foreign nationals, but if Communists are too demanding ship will not be permitted enter Shanghai.

It seems obvious to me from my conversation with Dr. Chen that attempted use *General Gordon* or *President Wilson*, either of which may be expected to have general cargo which would become subject jurisdiction Communists when vessel entered Shanghai and might be unloaded despite protests master, is not feasible and will not meet approval Nationalist Government. It seems to me we would be much wiser to proceed immediately toward arranging single vessel enter Shanghai under international auspices purely as repatriation vessel carrying only such cargo as has been agreed upon both by Nationalists and by Communists.

Discussed this problem with British counselor Canton who showed me British request Nationalist Government. British have requested relief ship or ships which would at same time evacuate British and other foreign Nationalists [*nationals*], cargo being subjected prior Nationalist Government and Communist approval.

It may be that most efficient and economic way tackling problem would be endeavor arrange for British vessels this area make sufficient

number trips evacuate those desiring and authorized by Communists to do so. Nevertheless, as the matter now stands, Nationalist Government still awaits our live [*list?*] cargo to be carried by *General Gordon* and anticipated date arrival vicinity Shanghai.

Sent Department; repeated Shanghai 513, Nanking 650, Taipei 139.

CLARK

393.1115/8-2349 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 23, 1949—9 a. m.

[Received August 23—1:24 a. m.]

3385. ReDeptel 1649, August 19.³⁴ Communist commitment permit entry *General Gordon* more definite than Department seems to assume. Communist letter, dated August 13, says unequivocally "permission is hereby granted for entry and exit of the SS *General Gordon* as applied". While it is true letter refers to information re freight to be carried as "most important to us", entry permit not made conditional on this information. Believe we should treat Communist letter August 13 as unqualified permit enter and so refer to it in our publicity re *Gordon*.

ReDeptel 1668, August 20, pertinent portions have been read presidents American Association, American Chamber of Commerce and APL agent. All agree matter cargo entirely secondary, should be played down as much as possible and should not be allowed jeopardize entry vessel.

ConGen has not intervened any way cargo arrangements and has not held out any hopes substantial tonnage can be brought in. Henry of American Association does not believe Association needs act as clearing house for import orders for American citizens, believing it preferable APL handle all cargo questions direct with prospective importers. National associations other foreign communities have not manifested any desire import on their own account or represent their citizens who may wish to import. Believe both Consulates and national associations should avoid cargo issue giving APL free hand in handling problem.

³⁴ See footnote 31, p. 1305.

Communist authorities accepting exit permit applications freely with no daily numerical limitation but still no indication re when and how freely permits will be granted.

APL proceeding on assumption large number permits will be grants [*granted*] and is planning put 300 cots on *Gordon* so as to substantially increase passenger capacity. Understand cots will be rated as minimum first class accommodations.

Sent Department, repeated Nanking 1815, Canton 1034.

McCONAUGHY

393.1115/8-2349 : Circular Telegram

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

NANKING, August 23, 1949—4 p. m.

[Received 11 : 01 p. m.]

Circular. In all cases involving Americans in your district where clear evident lack protection afforded by Communist authorities, you are instructed (1) attempt protest through most effective or feasible channels to local authorities citing circumstances, (2) provide ConGen Peiping and Embassy Nanking with details and recommendation whether or not Peiping should at that time attempt lodge similar protest with Central Communist authorities, (3) repeat information Department. You should keep Embassy Peiping and Department informed re outcome such cases. Re cases concerning which you have initially recommended Peiping not at time protest, you should at any subsequent time you feel such protest desirable recommend such, repeating message to Department. Peiping to keep Embassy, Department and post concerned informed re protests.

Sent Peiping, Shanghai, Hankow, Department pass Tientsin, Tsingtao.

JONES

393.1115/8-2449 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 24, 1949—3 p. m.

[Received August 24—5 : 24 a. m.]

3412. ReCantel 1001, August 22, repeated Nanking 650, Taipei 139. ConGen earnestly hopes no stone will be left unturned bring in *General*

Gordon. Substitution specially chartered ship sent out empty for repatriation use exclusively would have serious drawbacks:

1. Inevitable long delay when time may be of essence.
2. Heavy added expense.
3. Probable antipathetic attitude part Communist authorities with no assurance that they would agree far in advance to entry purely evacuation ship.

Gordon, being a transport, places little emphasis on cargo, capacity maximum 2350 measurement tons most of which will be taken up with mails, baggage and household effects of passengers. Ship expected have little thru cargo when it enters Shanghai. Communists did not molest thru cargo American and other foreign ships which entered Shanghai before blockade and there is no reason believe illegal interference with cargo not consigned Shanghai would take place.

Believe that if *Gordon* now withdrawn after Communist authorities have received and now processing large number applications for exit permits naming that ship their reaction would be most unfavorable since little doubt they would consider call cancelled at instance US Government and their attitude toward entry next passenger ship would be at least unsympathetic. Effect on morale of disappointed persons unable leave Shanghai and on rest of foreign community would be adverse. To facilitate Communist cooperation, APL particularly desirous load at least token shipments of cargo Hong Kong to Shanghai (APL suggests commodities approved by Nationalists could be selected from cargo consigned Shanghai and discharged Hong Kong from previous APL ships).

If Nationalists will permit shipment crated household effects departing foreigners, it is estimated there is sufficient tonnage such effects to fill all space not taken by baggage and mail.

Cantel 1009, repeated Shanghai 514, Nanking 652, August 23,⁸⁵ seen after foregoing drafted.

Downs, local agent APL, convinced company does not intend cancel call *Gordon* at Shanghai. APL Frisco already accepting payment some Shanghai passengers.

Sent Department, repeated Nanking 1826, Canton 1035.

McCONAUGHY

⁸⁵ Not printed.

811.508193/8-2449

*Memorandum of Conversation, by Mr. John F. Shaw of the Division
of Commercial Policy*

[WASHINGTON,] August 24, 1949.

Participants:* Ambassador Stuart
 Consul General Cabot
 Mr. Fosdick } Consultants to Ambassador Jessup on
 Dr. Case } FE policy
 CA—Mr. Sprouse; Mr. Perkins; Mr. Magill
 CP—Mr. Shaw
 Business Representatives†

Mr. Sprouse stated that the meeting had been called to permit businessmen having interests in China to talk with Ambassador Stuart and Consul General Cabot concerning recent developments in China and to express such views as they might wish to Mr. Fosdick and Dr. Case, who are assisting Ambassador Jessup in reviewing the policy of this Government with respect to China and the Far East.

Ambassador Stuart reviewed the political and economic situation in China, pointing out that, while in the short run the interest of American business in China and the interest of their Government may not always be identical, in the long run the interests of both are the same. He stated that he felt that Communist control of China would continue for some time and that the Communist regimes would steadily increase their regulation of the economy and extend their monopolistic control over industry and commerce. On the other hand,

*List is incomplete. [Footnote in the source text; Raymond B. Fosdick was a lawyer from New York, Dr. Everett Case was President of Colgate University.]

†Business representatives understood to be present:

1. Mr. E. J. Kavanaugh
California-Texas Oil Co.
2. Mr. A. C. Schermerhorn
Chase National Bank
3. Mr. T. D. Blake
I. T. & T.
4. Mr. S. T. Bitting
National City Bank of New York
5. Mr. H. F. Seitz
Standard-Vacuum Oil Co.
6. Mr. Roland Pierotti
Bank of America
7. Mr. P. M. Markert
Anderson, Meyer and Co., Ltd.
8. Mr. William B. Stafford
American & Foreign Power Co.
9. Mr. G. M. Rosse
C. V. Starr
10. Mr. Charles Behr
National Foreign Trade Council
11. Mrs. Florence Smith
American Chamber of Commerce [Footnote in the source text.]

the Communist program in China would very definitely be experimental and the Communists could be expected to make concessions where necessary; however, in the long run they could not be expected to deviate from the theory of Communism until that theory had been proved fallacious and impracticable. He noted that the policy followed by the Communists has released against foreign interests in China forces which are, and will continue to be, difficult to restrain. The Communist Party in China is committed to giving power to the proletariat and concessions to foreign business interests are obviously not consistent with this objective. With respect to representing the interests of this Government and its nationals he stated that the United States authorities in China have found it exceptionally difficult and often impossible to communicate with responsible Chinese Communist authorities. Each commanding military officer in an area appears to be exerting considerable autonomy with little attention being given to orders from central authorities. Under this situation the immediate outlook for the American business community is bleak, although China's requirements for oil may mean that the oil companies will fare better than other American interests.

Mr. Cabot continued this background presentation by explaining that the immediate prospects for American business interests in China were bad and would continue to be so as long as the Nationalist "blockade" is effective. The closure of ports not only makes it impossible for American firms to operate profitably in China but also creates great hardship on the population and on foreigners, who having in the past lived better than the average Chinese, are readily singled out for attack. While this is in part a natural reaction on the part of a large group of Chinese people, it is also consistent with Communist philosophy; the propaganda attacks to which foreigners have been subjected are inflammatory and are most regrettable. The attitude of responsible party members, however, is believed to be one of wanting to use for their own purposes the business know-how of the foreign community. It is not believed that the Communists have deliberately fomented all of the current outrages against foreigners. Mr. Cabot stated that he believed the Communists would extend to certain private foreign interests a definite role for a period of years in China's foreign economic development. The Department was not, however, in a position to judge whether American business enterprises would find the profits realizable during this intermediate period sufficient to warrant continuing their enterprises. He felt that a decision should be considered in the light of the avowed long range objective of the Communists to eliminate all private trade.

Mr. Sprouse read a confidential telegram⁸⁶ containing information from a Communist labor specialist with respect to new labor laws which have been issued by the East China authorities and which might tend to improve relations between management and labor. A number of the businessmen present expressed interest in receiving a copy of these laws.

As to evacuation plans, Mr. Perkins pointed out that there has been considerable demand on the part of American citizens in Shanghai to depart. The American President Lines is willing to send the SS *General Gordon* to pick up these individuals. Some 1,300 people have applied for passage on this vessel, of which 350 are understood to be Americans. Both the Nationalist Government and the Communist authorities have tentatively indicated their willingness for the ship to call at Shanghai. The Nationalists have also tentatively agreed to the shipment on this vessel of rice for use by foreigners in meeting payrolls but have stated that rice must not be shipped in commercial quantities. Mr. Perkins emphasized that this vessel, which may sail from San Francisco August 30, is not sponsored by the United States Government. According to information available to the Department, the Communist authorities in Shanghai have only recently begun accepting applications for exit permits; it is believed that a great mechanical problem will confront the Communist authorities in the processing of the applications thus far received even if the decision were to be made to permit the exodus of a large number of foreigners.

During the discussion of plans for evacuation, one of the businessmen said that he had learned the day before through conversation with his firm's representative in Shanghai that applications were received from 3,500 people who desire to leave Shanghai and that requests are being received at the rate of about 100 a day; so far the Communists have approved only 45. On being questioned as to why Northwest Airlines and Alaska Airlines have been refused permission to fly to Shanghai, Departmental officers pointed out that the use of air facilities for evacuation purposes was being reexamined. The Department officers also pointed out that getting agreement from both the Nationalist Government and the Communist authorities with respect to such flights is extremely difficult.

During the general discussion of economic problems confronted by American business interests in China, a number of the business representatives raised the question as to whether the evacuation of United States nationals would serve the interest and objectives of this Government. Mr. Cabot explained that the national interest falls on "both sides of the fence" in China and that this Government could not decide

⁸⁶ Telegram No. 3387, August 23, 9 a. m., from the Consul General at Shanghai, not printed.

for individual firms as to whether it is in their interest to remain or to evacuate. A representative of International Telephone and Telegraph said that his company had reached no decision as to whether American personnel should be removed. He felt that China's need for communication equipment was very great and that in the long run it might pay them to remain in China. He anticipated, in particular, competition in the future from German manufacturers. He said that he had also been speculating as to whether it would be desirable to turn over the management of the company's interests to Chinese nationals, with British employees remaining as advisers, or whether it would be more advisable to turn over the management to British employees who would turn the management over to the Chinese when eventually forced out. Mr. Sprouse replied that certain information received from China indicates that the Communists are generally prepared to see foreigners leave China if a few key personnel remain. Mr. Cabot felt that decisions as to whether American personnel should be kept in China would have to be decided on the basis of the issues involved in specific cases. Ambassador Stuart intimated that American interests in China might best be served in the immediate future by the adoption to the extent feasible of an indifferent attitude towards possible Communist overtures to trade. Mr. Cabot thought that American business might possibly find an indication of this Government's thinking in the fact that plans are underway to close a number of offices and to reduce personnel in others. The observation was made, however, that the staff at Peiping might possibly be strengthened. Previously Mr. Sprouse had observed that the consulates at Tsingtao and Hankow would be closed as soon as arrangements had been made to satisfactorily care for American interests in these districts.

Some concern was expressed as to the probable British attitude toward evacuation. From information available to the various firms, it appeared that the British are not planning to leave Shanghai. Regarding the possibility of the British "making a deal" with the Communists, Ambassador Stuart was of the opinion that there was a large area of agreement between the British and United States Governments regarding their mutual interests in China. From conversations with the British Ambassador in China, he believed that British policy would not substantially deviate from our own. (Some business representatives appeared to receive this observation with some skepticism.) Departmental officers also pointed out that many individual Britishers consider Shanghai their home and that British investments in China are more sizable than American.

As to the Department's view as to the continued effectiveness of the Nationalist blockade of Shanghai, Ambassador Stuart stated that as

long as Chiang holds Formosa and retains the loyalty of the air and navy forces, the blockade will continue. In replying as to whether anything can be done to strengthen the protection accorded American nationals in Shanghai, Mr. Sprouse stated that a public statement is under consideration for release in connection with the arrival of the *General Gordon*, and that the Department is most anxious to assist those individuals who desire to leave Shanghai by making facilities available for their departure.

In replying to the interest expressed by a number of those present as to the conditions likely to prevail in China in the next twelve months, Ambassador Stuart said that drought in the north, floods in the south and economic paralysis throughout China have made life very difficult and had perhaps contributed to retarding the Communist timetable for operations in China. He said the Communists had planned to take Canton by August 15 and that a new government was to have been established October 10. This timetable had also been disrupted by the resistance met in South China. He believed that a central government could not be established until early next year. As to the permanence of the Communist regime, Ambassador Stuart reported that the Communist soldiers are better trained and disciplined than the Nationalist troops; the Communist leaders live simply and are free from graft. On the other hand, the Communists are faced with grave economic problems and with the maintenance of an army of 4 million men. He foresaw no immediate threat, however, to their control of China.

Mr. Fosdick was asked if he desired to make any comments on the activity of his group. During the course of remarks in which he explained their work, he invited the businessmen to submit in writing views which they might have on the policy which this Government should adopt in relation to China and the Far East.

In closing the meeting, Mr. Sprouse reiterated that any decision as to the future course of action which American business firms should take must be left to the individual firms since the Department has no authority to order American firms to stay or leave. He felt, however, that Chinese nationals left in charge of American interests would be more vulnerable to Communist pressure than United States nationals.

393.1115/8-1549: Telegram

*The Secretary of State to the Consul at Shanghai (McConaughy)*³⁷

WASHINGTON, August 24, 1949—8 p. m.

1695. ConGentel 3241 Aug 15. Pls express orally to Am Chamber Commerce Shanghai Dept's appreciation of memorandum, which will

³⁷ Repeated to the Counselor of Embassy at Nanking as No. 1011.

be very helpful to Dept in making plans for repatriation of Amers wishing to leave Shanghai. Dept is warning firms and individuals to which it is transmitted against permitting any leaks and is confident businessmen in Shanghai will be equally careful, since any publicity wld have disastrous effect on delicate negotiations required to make arrangements for successful evacuation.

Dept has given very careful consideration to Chamber Commerce's memos of July 31 and Aug 15, as its subsequent instructions show. Following detailed comment offered re July 31 memo:

1. Dept appreciates the difficulties facing Am business in Shanghai today and is, therefore, endeavoring render all appropriate assistance in facilitating evacuation Amers wishing leave China.

2 and 3. Covered by White Paper letter of transmittal,³⁸ which, together with VOA³⁹ broadcast summary and comment, presumably available ConGen and leaders Amer community.

4. See Dept's previous instructions to Canton, Taipei.

5. Dept did not urge those Amers to evacuate who felt they had compelling reasons to stay. However, it repeatedly stressed risks involved, made it clear that US wld not use force to protect or evacuate Amers who elected to stay, and emphasized that each individual must make his own decision whether to stay or go.

6. Numbered subheads. Dept fully aware difficulties enumerated. Am firms informed by distributing memo as requested, meeting held in Dept Aug 4, and meeting held with representatives of Nat. For. Trade Council, Far East America Council and Shanghai Chamber in New York by Cabot Aug 19. Dept feels that only basis for determining how real difficulties and dangers are is experience. This is one of main reasons it is pressing specific arrangements for evacuation facilities. What further steps can and should be undertaken can only be determined on this basis.

Re recommendations: (1) Covered above. (2) ConGen already informed of Dept attitude by previous instructions. (3) No new military aid program has been established for Nats. (4) Dept believes normal exit procedure required by Commies shld first be tried. It understands Intl Red Cross and UN no more recognized by Commies than any foreign govt and therefore feels this approach unpromising under present circumstances. (5) Facilities now envisaged will be available to other foreigners, whether employed by Am companies or not. (7) Amers in Nat territory have already received strong warning. Dept cannot legally go further.

³⁸ From Secretary of State Acheson to President Truman, dated July 30, Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. iii.

³⁹ Voice of America.

Following detailed comment offered re Aug 15 memo:

Dept will give all appropriate assistance arrange for evacuation facilities as required to meet demand for Amers wishing to leave Shanghai. As pointed out above experience alone will reveal practical difficulties involved and Dept can give no assurances re nature and continuance of any evacuation facilities.

Numbered point 1 answered above.

Point 2. Dept seeking to ascertain what cargo if any Nats will allow to pass blockade and hopes both Nat and Commie assent can be obtained to specific proposition. It is clearly desirable if not essential in view of many grave risks otherwise involved to have such assent from both parties. Dept can take no position regarding any facilities for Chinese.

Point 3. Covered by above and previous instructions.

Three questions also covered by previous instructions and preceding comments.

Dept cannot agree that Am businessmen "assured full support". Dept has always ruled out armed intervention, pointed out means for protecting Am citizens likely to be limited and confined assurances of special support to oral statement that key Amers remaining in Shanghai wld be given identical consideration re evacuation and repatriation with Consulate staff.

Re Chamber's comments re air evacuation, see Deptel 1631.⁴⁰

Dept appreciates that pressure on Commie authorities for specific decisions may well be counter productive and therefore leaves it in your discretion how far to go in seeking to secure such decisions. ConGen will realize however that it is essential that Dept be kept promptly informed of every significant development as situation crystallizes in order that no chance may be lost to provide evacuation facilities at an early date for those Amers wishing to leave.

Shld any Amers seek your advice re evacuation you shld emphasize that each Amer must make his individual decision and that Dept and ConGen cannot give such advice.

ACHESON

393.1115/8-349: Telegram

*The Secretary of State to the Counselor of Embassy in China (Jones) at Nanking*⁴¹

WASHINGTON, August 25, 1949—4 p. m.

1016. Heads mission boards state missionaries in field have full auth make own decisions re evacuation without prior consent hdqrs US.

⁴⁰ August 17, 6 p. m., p. 1299.

⁴¹ Repeated to the Chargé in China as telCan No. 621.

If you have knowledge missionaries desiring leave but awaiting consent hdqrs US which not yet forthcoming pls inform Dept names persons and their mission boards and Dept will bring attn boards concerned. (Embtel 1698, Aug 3 ⁴² and Cantel 862 Aug 1.)

ACHESON

393.1115/8-2549 : Telegram

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

NANKING, August 25, 1949—5 p. m.

[Received August 25—12:32 p. m.]

1893. Embassy most urgently supports view ConGen, Shanghai's 3412, August 24, that every effort be continued to secure entry *Gordon*. Failure of ship to appear will be most bitter disappointment to many hundreds people Shanghai and Nanking. Responsibility for such disappointment will belong properly to either Commies or Nationalists but nonetheless will be placed on APL and US Government unless we have clear record unremitting efforts. Though Nationalists may now consent to one ship only (Canton's 1009 to Department ⁴²), matter should certainly be pressed and new request should follow when need for additional ship apparent. Embassy like ConGen sees no reason anticipate illegal interference *Gordon* cargo by Commies who must be aware such action would be as effective as Nationalist blockade in frightening away foreign shipping. Embassy feels all possible action should be taken induce and aid APL to adhere to original representations.

Sent Department 1893, repeated Embassy Canton 800, Shanghai 1041.

JONES

393.1115/8-2249 : Telegram

The Secretary of State to the Chargé in China (Clarke) ⁴³

WASHINGTON, August 25, 1949—6 p. m.

TelCan 623. Re Cantel 1001, Aug 22 rptd Shanghai 513, Nanking 650, Taipei 139. Without awaiting FonOff note outlining full position Natl Govt and on basis urtel it is probable, in view possible implication re recognition of "blockade", this Govt wld take no official cognizance Natl Govt stipulations concerning boarding and inspection vessel's cargo. However, if *Gordon* call appears otherwise feasible, we wld

⁴² Not printed.

⁴³ Repeated to the Counselor of Embassy at Nanking, the Consul at Shanghai, and the Consul General at Taipei as Nos. 1020, 1709, and 264, respectively.

expect pass on to shipping company info re Nats intention inspect near or in Chi waters.

There wld appear to be no objection to Natl Govt consideration one vessel at a time if door not closed call of other vessels.

While there is some hazard that through cargo might be unloaded by Commies despite protest master, whole situation fraught with hazards, among which is possible future difficulties faced by Amers Shanghai unable find other facilities. APL agent here states cargo carried not great in amount and wld be little benefit to Commies if taken. Dept has already suggested APL office that its agent Shanghai obtain commitment in writing from Commie auths Shanghai covering every possible point relating to call including port dues, labor hire, inspection, through passengers, inward and outward cargo, etc. APL is instructing Downs along these lines. This shld give as reasonable assurance of non-interference with ship by Commies as cld be obtained for any vessel or craft devoted evacuation purposes. Fon ships entering Shanghai prior "blockade" were also subjected hazard.

Above exposition is by way of comment only, as US Govt does not undertake responsibility possible difficulties of vessel, which wld rest upon parties involved in evacuation project. It is clear, however, from numerous msgsg responsible members Amer community Shanghai there is strong demand by many Amers to leave and that *Gordon* appears most practical opportunity within foreseeable future evacuate any sizable numbers Amers.

Dept in full accord endeavor use other vessels, including Brit China coasters. We have already suggested this possibility several times and there will probably continue be definite utility such voyages. However, we have not yet noted anything definite on that score.

APL states underwriters require written approval both Natl and Shanghai Govts. When recd, pls pass text Natl Govt written assurance to Dept by tel for transmission APL here. *Gordon* ETD ⁴⁵ Frisco now Aug 30 and ETA ⁴⁶ Shanghai Sept 23.

ACHESON

893.1115/8-2449 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, August 26, 1949—6 p. m.

1720. Re third para urtel 3412 Aug 24 rptd Nanking 1826 Canton 1035. Pls impress APL agent desirability receiving definite assurances from Commie auths covering every possible point of controversy

⁴⁵ Estimated time of departure.

⁴⁶ Estimated time of arrival.

that can be foreseen in entry exit *Gordon* Shanghai (this preferably be done only if [and] when entry ship assured). This not only desirable for safety passengers and vessel, but for prevention any incident having polit implications, which might be serious. We also suggest APL or others who handle rice imports have clear understanding with Commie auths re consignees, import duty, etc.

Although APL wld desire transport some off-loaded cargo from Hong Kong, no commitment shld be given Commies this score. Pls note from Cantel 991 Aug 19 rptd Shanghai 507 Nats will not approve outward cargo Shanghai. APL also desirous book about 600 Chi en route Shanghai previously off-loaded Hong Kong; we have informed APL our own chief interest is travel Amers and to extent possible other foreigners who wish leave Shanghai and that question travel Chi, if their transport desired, cld be taken up directly with Natl Govt by APL, but shld not become obstruction to project. APL here appears agreeable this line action.

Re ur 3341 Aug 19, Dept proposes inform Nats through Canton and Taipei precise itinerary, markings, etc., *Gordon* at appropriate time for info Natlst mil units.

ACHESON

393.1115/8-2649: Telegram

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

CANTON, August 26, 1949—9 p. m.
[Received August 27—12:33 a. m.]

Cantel 1030. TelCan 550, August 11, repeated Shanghai 1582, Nanking 945, and Cantel 953, August 15. Following note dated August 24 received [from] Foreign Office:

"The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to state that with reference to the Embassy's *aide-mémoire* of August 15, 1949,⁴⁷ concerning the matter of the American Government's sending a ship to Shanghai to evacuate alien nationals and bring in relief supplies, the Ministry of Foreign Affairs has consulted with and obtained the agreement of the competent authorities that the American Government may send a ship to Shanghai to evacuate foreign nationals under the following conditions:

"(1) Only one ship may be sent for the evacuation of foreign nationals and the evacuation of foreign nationals desirous of leaving must be completed in one operation;

⁴⁷ See Cantel No. 953, August 15, 5 p. m., p. 1292.

"(2) The evacuation ship must first sail to Chou Shan Chun Island⁴⁸ and arrange with the Chinese Navy's First Squadron the method of entering and leaving (Shanghai) and the Chinese Navy will send two Chinese naval officers to board the evacuation ship and will also send a warship as an escort in order to assure safety;

"(3) The evacuation vessel's name, tonnage, markings schedule passenger cabins, capacity cargo, number of ship personnel, and foreign nationals must beforehand be reported to the Ministry of Foreign Affairs for transmittal to the Chinese Navy and Air Force Headquarters;

"(4) The nature and amount of the cargo must be limited to supplies for the necessary use of the ship's personnel and the evacuees. The amount and the nature of the goods must be clearly listed and the list sent to the Chinese Government for inspection and these goods may not be shipped in until the Government's permission is given. The Chinese Government must also send officials to board the vessel to inspect the cargo in order to ascertain whether or not it corresponds with that shown on the list. The Chinese Government's competent authorities have already ordered naval headquarters to give necessary assistance to the evacuation ship in regard to the purchase of foodstuffs and fresh vegetables.

"The Chinese Government emphasizes that the above-mentioned privileged treatment is based on humanitarian considerations and cannot be considered as changing or influencing the Chinese Government's previously expressed firm attitude on the closure of seaports."

Identical note handed British same date reference numbered paragraph 2 of note, point of inspection will be off harbor of Tinghai. Inspection mentioned in numbered paragraphs 2 and 4 is one and the same. In numbered paragraph 4 the term "cargo" includes that which is to be landed at Shanghai to enable the evacuees to settle their obligations.

Foreign Office verbally accepts the *Gordon* as repatriation vessel and suggests that a note formally proposing the *Gordon* be submitted in the near future. Thereafter it is up to the evacuees promptly to name types and amounts of supplies to be imported into Shanghai. At such time as the consolidated list is presented to the Foreign Office it guarantees prompt decision.

Within the terms of note quoted above the Nationalist Government seems obviously to desire to expedite in every way possible the entry of one evacuation ship into Shanghai.

Sent Department; repeated Shanghai 518, Nanking 655.

STRONG

⁴⁸ Chu Shan Island.

124.93/8-3149 : Telegram

*The Secretary of State to the Counselor of Embassy in China (Jones)
at Nanking*

WASHINGTON, August 31, 1949—2 p. m.

1038. ReDeptels 1028 to Nanking and 1727 to Shanghai Aug 26.⁴⁹ It is Dept's intention and hope Emb and ConGen can arrange for all departing personnel use first available transportation. Every effort shld be made get personnel departing aboard *Gordon*. If Dept has not issued trans orders for personnel transferring, Nanking shld issue evacuation TO's and inform Dept nr, date, names of employees and families and destination evacuation TO's.

Sent Nanking rptd Shanghai.

ACHESON

811.79693/9-149 : Telegram

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

WASHINGTON, September 1, 1949—4 p. m.

TelCan 639. View Dept's increasing concern situation Shanghai and continued uncertainty entry *Gen Gordon*, request you urgently endeavor obtain ChiGov's assurances unmolested entry and exit Shanghai for sufficient number flights by PAA and NWA to evacuate fon natls, primarily US citizens. Flights to operate Shanghai-Hong Kong and/or Okinawa and other points as developments may require. Shld be pointed out that, while US requesting these flights primarily evacuation Shanghai, Commie approval may be conditioned to allocating small percentage each aircraft's capacity to Commies. US considers incidental benefits to Commies of transporting small number Chinese is far outweighed by more important consideration of evacuating US citizens and other foreigners from Shanghai. Inform FonOff US Govt views this request as matter of great importance.

ACHESON

393.1115/9-149 : Telegram

*The Secretary of State to the Consul at Shanghai (McConaughy)*⁵⁰

WASHINGTON, September 1, 1949—6 p. m.

1768. Re Deptel 1583 rptd Nanking 946, Canton 551. For ur confidential info the question of entry *Gordon* at Shanghai was taken up by Joint Chiefs Staff who gave opinion that sending large valuable US

⁴⁹ Neither printed.

⁵⁰ Repeated to the Chargé in China as telCan No. 642.

ship up Yangtze and Whangpoo during present situation wld unnecessarily invite incident that cld lead to US mil involvement with Chi Commies. Secy of Defense ⁵¹ states that Cmdr, 7th Task Fleet, has advised and JCS have favorably considered possibility chartering smaller draft vessels locally for purpose transporting passengers and their effects from Shanghai to a rendezvous outside Chi territorial waters.

Pls reexamine carefully with APL and other competent auths all possibilities for transfer passengers to *Gordon* outside Whangpoo or Yangtze, having in mind facilities, possible risk to passengers, Commie attitude, etc. In past, large vessels have on occasion lain outside while taking on passengers.

Also report possibilities Amers and other fons obtaining voyages coastal craft from Hong Kong or elsewhere or any other potential travel facilities known to you.

Since *Gordon* left Frisco Aug 30, request reply earliest.

ACHESON

393.1115/9-249 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 2, 1949—5 p. m.

[Received September 2—8 : 53 a. m.]

3628. Your 1768, September 1, repeated Nanking 1047, telCan 642. ConGen can only assume Joint Chiefs had not seen its 3244, August 15, repeated Nanking 1769, Canton 1010, last section of which sets forth at length reasons why it is wholly impracticable to arrange suitable small vessels locally to transport passengers and their effects from Shanghai to rendezvous with *Gordon* outside Chinese territorial waters. These reasons are fully as valid today as they were on August 15.

Re possibility arranging entrance coastal vessels from Hong Kong, British ConGen informed me last night efforts in this direction have met serious obstacles in form of impasse over conditions which Nationalists would impose before granting safe-conduct. Suitable coastal vessels are all of British registry and British unwilling submit indignity strict control cargo and boarding and search on high seas. This means probable delay of some time at best before any British ships will come in. In any event passenger capacity these vessels strictly limited averaging 50 accommodations for Caucasians. Space demands for British subjects considerable.

⁵¹ Louis Johnson.

Explicit written permission received by APL from Communists for entrance and clearance *Gordon* as petitioned. Considered unlikely any serious incident involving vessel will be precipitated by Communists while she is in port.

Cancellation *Gordon* call this late date on what would seem to local foreign community very flimsy pretext would be catastrophe foreign community and serious setback American prestige. All our strenuous evacuation work of past several weeks would be set at naught.

Cancellation would furnish ammunition to Communist allegations we have vacillated in our transportation and communication policy and have not shown good faith in negotiations for resumption air and ship service.

Department will recall this is entirely commercial civilian venture with risks presumably fully underwritten by APL insurers.

Please inform CNO and Commander Seventh Task Fleet.

Sent Department 3628, repeated Canton 1073, Nanking 1902.

McCONAUGHY

393.1115/9-349: Telegram

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

WASHINGTON, September 3, 1949—2 p. m.

TelCan 649. APL states msg recd from Goodwin, Hong Kong, indicates Natls may object through passengers aboard *Gordon* for ports beyond Shanghai. If this is case, point out to FonOff that we fail perceive any basis exercise Natl Govt auth over passengers booked outside and proceeding beyond any possible jurisdiction Govt. Point out passengers for points beyond Shanghai wld be Amers or others having visas for Occupied Jap or US.

Booking passengers for Shanghai is question for APL and Natl Govt and you shld not intervene that subject.

ACHESON

393.1115/9-349: Telegram

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

NANKING, September 3, 1949—6 p. m.

[Received September 4—1:51 a. m.]

1997. Embassy greatly disturbed by implication Deptel 1768, September 1, to Shanghai. We have been watching with growing confidence delicate progress of negotiations both Canton and Shanghai for entry of *Gordon* to evacuate Americans and friendly nationals from Communist China. We strongly urge that no complicating factors be

introduced from US side particularly this late stage. Movements of *Gordon* are sole topic conversation these days, Nanking foreign community. This is undoubtedly true likewise Shanghai. Even those foreigners not contemplating passage are watching with interest its progress as criterion of US interest and ability to afford its citizens and friendly nationals opportunity to leave Communist China. *Gordon* has become symbol of liberation for them and no substitute arrangement can replace at least in terms of prestige the appearance in port of Shanghai of an American vessel dispatched in support of its nationals and American interests. Failure of *Gordon* to carry out her evacuation mission because of last minute restrictions emanating from US rather than China would react to serious detriment of US prestige in China.

Fears of Joint Chiefs seem to us here unwarranted. Question of Communist seizure of foreign commercial vessels entering Shanghai has never been seriously raised and indeed during early days of Shanghai's occupation three foreign vessels entered and sailed without threat of [*or?*] hindrance or other untoward incident from occupying authorities. This experience repeated many more times Tientsin.

Since entry of *Gordon* has been accepted by Shanghai authorities in routine manner, it would be difficult in our opinion if not impossible to negotiate new plan to lower passengers and effects from small craft at sea. Failure of *Gordon* to appear Shanghai as originally scheduled would undoubtedly be considered an affront by Shanghai Communists and would certainly complicate and even jeopardize exit of Americans and other foreigners. Furthermore Communist publicity (pointingly [*pointedly*] ignoring blockade) treats *Gordon* call as routine shipping operation and Communists would therefore probably be unable at this stage developments agree to JCS plan which so strongly emphasizes assistance and effectiveness of blockade. Communist interpretation of this change of plans would undoubtedly further confirm their suspicions that US fully supports Nationalist Government blockade of China coast.

While AmConGen Shanghai will undoubtedly report on safety factors involved, it is felt that transfer of passengers on open sea during typhoon season is hazardous and there is no guarantee that the trans-shipping vessel will be properly equipped with safety devices in the event that either Communist, Nationalist, or natural incidents affecting safety of passengers occur.

On basis foregoing strongly recommend adherence to present plans.
Sent Department, repeated Shanghai 1085.

JONES

393.1115/9-349 : Telegram

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

CANTON, September 3, 1949—8 p. m.
[Received September 6—12:46 p. m.]

Cantel 1067. Reference telCan 639, September 1. Chen Tai-chu, director American section Foreign Office, today stated his Government "preferred to adhere" to evacuation ship plan as originally arranged and asserted that permitting any Communists to leave on evacuation planes "could not possibly be acceptable" to Nationalist Government. He emphasized that only one exception to closure measure would result if ship called Shanghai, but if planes used, numerous exceptions would be required. For control purposes, Nationalists would also prefer an evacuation ship to planes. He expressed great surprise at possibility of evacuation ship not being used. Remarking that his government had "applauded" evacuation ship project and was eagerly awaiting details of its implementation, he made very clear that only after great difficulty and delay, if then, would Nationalists consider [*consent*] to air evacuation and said that before further consideration could be given this new proposal his Government would like to know what difficulties had arisen with regard to evacuation ship, whether said difficulties created by Communists.

From foregoing conversation with Foreign Office it would appear highly probable that Nationalist Government would not be willing alter, without long delay, original basis of repatriation as discussed with them on several previous occasions. If "difficulties" raised over the entry of the *Gordon* into Shanghai had indeed been created by the Communists, Chinese Government might prove more willing discuss alternatives, but should they learn that US Government itself has at this stage changed its mind, it seems reasonable to believe that they would remain adamant in their stand which allows one ship to make one call for repatriation purposes.

Although reaction Consulate General Shanghai to Department's proposals in telCans 639 and 642, September 1⁵² not yet received, no doubt Communists would be as unhappy at any change of original plans as Nationalists, changing procedure at this date would indicate to each party that we do not trust them and might lead to propaganda from which US could not benefit. To exhibit fear at this date of possible Communist violation of terms under which ship to enter Shanghai when principle of entry agreed on and when both written assurances probably forthcoming, seems a negative attitude which can only further antagonize Communists and render any future similar

⁵² For latter, see footnote 50, p. 1323.

negotiations much more difficult. Nationalists, unless aware of reasons for change in US attitude towards entry of *Gordon* into Shanghai, might well consider it based on distrust of themselves.

All in all, if adequate written assurances are received from both Nationalists and Communists, more can be duly publicized so that the general public is aware of the terms under which *Gordon* is to enter Shanghai, the pressure on both Nationalists and Communists to see repatriation trip through without incident will be heavy and will outweigh many advantages which either of them might consider gaining by interfering with the operation in any serious manner. Neither Chinese Government nor Communists will desire to give their enemies opportunity of accusing the other of violating agreement.

Reference penultimate paragraph telCan 642, employment of coastal vessels to operate Hong Kong-Shanghai would not meet Chinese Government requirement of one trip. Conversation with APL official indicates they believe such operation impracticable.

Sent Department Cantel 1067; repeated Shanghai 525.

STRONG

393.1115/9-649 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 6, 1949—6 p. m.

1804. Fol for Downs, APL, from Buckley :

"Conditions under which Natl Govt of China will assure US safe conduct for *Gordon* in event call Shanghai as fol :

1. Only one ship may be sent for evacuation of fon natls and this evacuation must be completed in one operation.

2. Evacuation ship must first sail to Chou Shan Chun Island and arrange with Chinese Navy's first squadron the method of entering and leaving Shanghai and Chinese Navy will send two naval officers to board evacuation ship and also send warship as escort in order to assure safety.

Evacuation vessel's name and all passenger and cargo specifications must be reported to Min of FonAff for transmittal to Chinese Navy and AF Hdqtrs.

4. Cargo must be limited to supplies for necessary use of ship's personnel and evacuees. Chinese Govt officials will board vessel to inspect and clear cargo items.

5. Chinese Govt emphasizes entire action based on humanitarian considerations.

Advise how many Amers cleared to date and approx number Amers expected to ship. Goodwin advises Natl Govt will not permit any passengers aboard vessel either destined Shanghai or ports beyond. Can you confirm diplomatically that foregoing will not conflict with people's govt's assurances to US as already indicated in previous radios and which gratefully appreciated?"

ACHESON

393.1115/9-749 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 7, 1949—10 p. m.

[Received September 7—9:44 a. m.]

3700. Re Deptel 1804, September 6, conditions Nationalists would impose on *General Gordon*. It seems to Consulate General there is limit to what we can accept in way of Nationalist requirements without loss national dignity. Already some prominent foreigners are referring with slight air contemptuousness to affronts we are taking from Nationalists and highly placed foreign consular officer recently said his government would like bring in evacuation ship also, but would not "eat mud" in order do so.

APL agent here resentful conditions imposed and takes exception implied Nationalist reflection on integrity his company. He will reply to Buckley tomorrow through Consulate General.

Consulate General of opinion verbal assurances by APL backed by affidavit executed by master at Consulate General, Hong Kong, that *Gordon* complies with desires Nationalist Government re cargo and passengers should be accepted as *prima facie* evidence compliance and obviate need for stoppage and search.

Consulate General recommends Department consider matter US prestige Communist China in determining whether Nationalist demands *Gordon* are tolerable or intolerable.

Sent Department 3700, repeated Nanking 1934. OffEmb Canton 1086, Taipei 266, Hong Kong 231.

McCONAUGHY

893.1115/8-2749

The Secretary of State to the Secretary of Defense (Johnson)

WASHINGTON, September 7, 1949.

MY DEAR MR. SECRETARY: I refer to your letter of August 27⁵³ relative to the proposed call of the SS *General Gordon* at Shanghai for the purpose of evacuating American and other nationals.

I feel certain that we will agree that every reasonable effort should be made to evacuate the considerable number of Americans in the Shanghai area who desire to leave China. The situation of the American community in Shanghai has become increasingly difficult. In the absence of other available facilities for departure from Shanghai, arrangements were made for the call of the SS *General Gordon* in an effort to meet the rapidly increasing desire of Americans to leave. The

⁵³ Not printed; the substance was given in telegram No. 1768, September 1, 6 p. m., to the Consul at Shanghai, p. 1323.

prospective call is a matter of public knowledge in China. A failure to provide this means of exit would be regarded as an indication of our intention not to assist them to leave, at least by those Americans now caught in Shanghai as well as by their families and friends in the United States. An abandonment of the prospective call at this time might well be regarded throughout China and elsewhere as an unwillingness on the part of the United States to accept risks which traditionally have been accepted in order to protect American citizens abroad.

The Department of State is anxious to work out with your Department the way in which this trip can be carried out with the least possible risk to American interests. The suggestions of the Commander of the Seventh Task Fleet, which were communicated to the Department some weeks ago, were transmitted to the American Consul General in Shanghai. The Consul General informed us that it is the opinion of shipping authorities, concurred in by the Assistant Naval Attaché at Shanghai, that smaller draft vessels are not available in Chinese waters for use in transporting passengers and their effects to a rendezvous outside Chinese territorial waters. A renewed inquiry of the Consul General, following the receipt of your letter, has elicited a strong reaffirmation of the opinion that neither coastal steamers nor facilities for a call outside Shanghai harbor are available.

The possibilities of evacuation of Americans by commercial planes have also been considered, but this prospect does not appear hopeful because of the difficulties of obtaining approval of the proposed flights from both the Nationalist Government and Communist authorities.

We believe that your Department and the Joint Chiefs of Staff will have seen the telegrams from the Consulate General at Shanghai, the Office of the Embassy at Canton, and the Embassy at Nanking, which comment in full on the question of alternatives to the entry of the SS *General Gordon* and emphasize strongly the unfortunate effect which the failure of that vessel to call would have upon the morale of Americans and the prestige of the United States in that country. For your convenience, copies of these telegrams are attached.

Although it is admitted that some risk attaches to the entry of the SS *General Gordon* into Shanghai, these risks have been assessed by and are acceptable to the operators of the SS *General Gordon*. The American President Line has obtained commitments from both Nationalist and Communist Chinese authorities for the safe passage of their vessel. Although there is no absolute guarantee that the assurances of these authorities will be effective, it is believed that such publicly-known commitments will serve greatly to reduce the risks which are inherent in the situation.

While the Department of State stands ready to consider jointly with you any alternative course that involves the least risk to the over-all American interest, it clearly appears upon the basis of all available information that the only means of removing any sizable number of Americans from the Shanghai area within the foreseeable future is a call of the SS *General Gordon* at that port. Accordingly, I am forced reluctantly to the conclusion that the evacuation of Americans should go forward as planned, and I trust that you will agree that the possibility of a military incident, referred to by the Joint Chiefs of Staff, is a risk which in the circumstances must be taken.

Sincerely yours,

DEAN ACHESON

393.1115/9-849 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 8, 1949—4 p. m.

[Received September 8—10 : 22 a. m.]

3718. For Buckley, care APL, from Downs. Re Deptel 1804, September 6.

"Earnestly suggest Nationalist conditions as outlined your message September 6 be summarily rejected as arbitrary and presumptuous with request they provide simple guarantee *Gordon* will be free of molestation from their warships and planes in Shanghai approaches and port stay while on regular schedule voyage 20th. Compliance with condition No. 2 undesirable since no change exists in navigation procedures previously experienced by master and pilot. Probability vessel delay also objectionable factor. Escort unnecessary and unsolicited. If vessel calls Chusan Island, Communist agents there undoubtedly will advise Shanghai who may view maneuver with suspicion. Appreciate your proposal how [and] when adhere to requirements condition No. 3. In event people's government insists *Gordon* load general export cargo, what is anticipated reaction by Nationalist officers who intend "clear" vessel?

"Extremely difficult we reconcile this change in attitude of traditionally cooperative relations especially since initial assurances imposed no such conditions governing *Gordon* call. Condition No. 5 only humorous aspect of entire negotiations. Only few Americans cleared to date but expect visa issuance will be accelerated next few days (believe embarking Americans will not exceed 350, others 900). Nationalist objection to in transit passengers in our opinion irrelevant and unnecessary restrictive act without justification or purpose. Without consulting Shanghai government authorities can reasonably assume their attitude would be immeasurably less cooperative if they suspected extent control Nationalists permitted exercise over this operation."

Sent Department 3718, Nanking 1942, Canton 1091.

McCONAUGHY

393.1115/9-949: Telegram

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

CANTON, September 9, 1949—5 p. m.
 [Received September 9—4: 19 p. m.]

Cantel 1076. Missionaries Canton state they have discussed question leave China fully with home boards (telCan 621, August 25⁵⁴) and have been given full authority make own decision whether leave or stay. Local groups have also made effort allow individuals complete freedom choice. Number missionaries have left for family, health, other reasons but those now Canton plan stay on, barring definite change situation, and hope for conditions allowing them continue work. Majority insist they made decision remain for practical reasons (although factor sentiment exists) and indicate they can change minds if practicalities demand.

There have been some expressions disappointment that small Consulate not kept open Canton, but most agree that Consulate would be useless if relations with Reds continue bad and that fact Consulate closed puts US in better bargaining position in case recognition discussed.

Lingnan University has reopened with enrollment 1200 equal that last year and double prewar. Large number students switching to physical sciences and medicine, indication belief these only lines work intellectuals can undertake Communist areas without fear ideological control.

Sent Department Cantel 1076; repeated Nanking 666, Shanghai 526.
STRONG

393.1115/9-1949: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 9, 1949—7 p. m.
 [Received September 9—10: 02 a. m.]

3759. Dept will have noted Downs' message for Buckley, APL, commenting on Nationalists' conditions re entry *Gordon* (ConGentel 3718, September 8, repeated Nanking 1942; Canton 1091). Consulate General considers Downs' telegram comprehensive and fair-minded statement of case against supine acceptance extreme Nationalist demand on *Gordon*.

Consulate General believes strong representation should be made to Nationalist Govt pointing out entry of *Gordon* Shanghai should be permitted without interference along those lines indicated ourtel 3700,

⁵⁴ See footnote 41, p. 1318.

September 7; repeated Nanking 1934; Canton 1086. In view Dept's statement re illegality blockade, unless declared and effectively maintained, voluntary submission large American liner to search would be interpreted here as acceptance or at least toleration blockade. Suggest certification procedure recommended reftel should be satisfactory evidence ship's crew, passengers and cargo are as represented, and there should be no reason for interference with entry and exit vessel.

Submission to humiliating procedure prescribed by Nationalists would seem warranted only if Dept considers no other way of assuring entry ship.

Sent Department 3760 [3759]; repeated Nanking 1963; OffEmb Canton 1100.

McCONAUGHY

195.91/9-949: Telegram

*The Secretary of State to the Chargé in China (Strong)*⁵⁵

WASHINGTON, September 9, 1949—8 p. m.

TelCan 661. Pls inform FonOff informally soonest at request APL you are transmitting fol info: That APL states *Genl Gordon*, which company expects send Shanghai, will not make that call unless Nat Govt conditions in points No. 2 and 4 in FonOff's Aug 24 note are eliminated. Restrictions involved are greater than APL as private carrier can afford assume. However APL is willing agree give assurances to Nat Govt and furnish affidavit which master of *Gordon* old swear to before AmConsul Hong Kong stating full details cargo, passengers carried in and out Shanghai. APL states *Gordon* approaching Yokohama and in view decisions re bookings, etc, it will need to have reply before Mon., 12th.

You shld inform FonOff that we regard APL proposal as a reasonable one, particularly in view their change of schedule to offer shuttle trip; that we support proposal; and that if Shanghai call falls thru on account this point we wld expect later to say so.

Also inform FonOff *Gordon* plan now to make shuttle trip Hong Kong-Shanghai going in completely light except with permitted quantity cargo and mail but without passengers; outward from Shanghai ship will lift full load passengers, some for disembarkation Hong Kong, balance destined US.

ACHESON

⁵⁵ Repeated to the Counselor of Embassy at Nanking, the Consul at Shanghai, and the Consul General at Taipei as Nos. 1078, 1839, and 300, respectively.

393.1115/9-1049: Telegram

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

NANKING, September 10, 1949—6 p. m.

[Received 11:37 p. m.]

2053. It seems to us we should constantly have in mind purpose of *General Gordon's* visit Shanghai, namely to evacuate American citizens from China who are anxious to leave, some of them desperately so (Shanghai telegram 3700, September 7 to Department). If we accept point that evacuation is overriding importance, then various indignities suffered at hands both Nationalists and Communists assume their proper proportions and become relatively unimportant. Certainly what Americans including officials are required to take from local Communist authorities in order to exit China requires daily restraint and practice of humility.

British are apparently unwilling to accede to Nationalists' requirements but their problem is one of relief rather than of evacuation. We are informed French Consul General likewise finds Nationalists' terms unacceptable and has stated that SS *Maréchal Joffre* will not call Shanghai if required submit thereto. We hope this is not true since many Europeans Nanking including Frenchmen plan exit thereon and would not in their present frame of mind understand failure of ship to appear for abstract reasons of national prestige.

It should be borne in mind at all times that Communists constantly refer to "blockade" as inspired and supported by American imperialism, and that failure of *Gordon* to appear will almost certainly be ascribed to our cooperation with Nationalists rather than to our refusal accept Nationalists' restrictions. This view lent color by fact British furnish naval escort to their shipping while we have publicized our decision to be [*do*] nothing of the sort. On other hand, such Communists as are aware actual US position re blockade will consider as merely technical basis of our objection to Nationalist examination of vessel, namely that Nationalists not in control Shanghai port and therefore unable make legal examination and such Communists may then conclude US Government not in fact deeply concerned over welfare US citizens and movements Government personnel.

We feel that a determination that Nationalist requirements constitute insuperable stumbling block will decidedly worsen helpless position Americans and other foreign nationals and will injure rather than preserve US prestige.

Sent Department, repeated Shanghai 1113.

JONES

393.1115/9-1149 : Telegram

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

NANKING, September 11, 1949—11 a. m.

[Received September 12—2:20 a. m.]

2057. British Ambassador⁵⁶ informs his Government likewise does not expect to reply to Chinese Foreign Office note August 24 re entry of relief ship Shanghai (reference Deptel 1068, September 8,⁵⁷ repeated Shanghai 1821, Hong Kong telCan 656). He added that British found Nationalist requirements unacceptable and that they would not send ship to Shanghai under those conditions.

Sent Department 2057, repeated OffEmb Canton 826, Shanghai 1115.

JONES

393.1115/9-1149 : Telegram

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

CANTON, September 11, 1949—noon.

[Received September 12—11:29 p. m.]

Cantel 1086. Chen Tai-chu, Director American Section FonOff, said Nationalist Government has no objection to through passengers on *Gordon* (telCan 649, September 3, repeated Shanghai 1799). He reiterated, however, his Government's objection to booking passengers to Shanghai from Hong Kong or elsewhere.

Sent Department, repeated Shanghai 531.

STRONG

195.91/9-1349 : Telegram

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

CANTON, September 13, 1949—1 p. m.

[Received 2:52 p. m.]

Cantel 1092. Matter telCan 661, September 9, repeated Shanghai 1839, Nanking 1078, discussed with Chen Tai-chu, head American section Foreign Office, who promised refer APL's request higher authority and give us answer soonest. Chen himself stated he believed Chinese Government would be willing forego actual boarding and search of *Gordon* but would insist on some sort of escort through waters outside Yangtze estuary. Such escort would probably consist only of

⁵⁶ Sir Ralph Stevenson.

⁵⁷ Not printed.

passing in and out between Chinese naval vessels after giving visual signals. Chen stated *Anchises* left in such a manner without being boarded by Chinese Navy, but did give visual signals on entering area where Nationalists patrol. If Chinese Government accepts master *Gordon's* affidavit, Chen believes they would free US Government responsible seeing APL fulfill terms thereof. He was told US could not assume responsibility.

Chen stressed again Nationalists request that vessel carry no cargo other than relief supplies and mail in and no outward commercial cargo. Outward passengers to consist only of persons with foreign passports. Chinese Government reserves right inspect vessel after it leaves Shanghai.

Chen stated that negotiations over clearance *Gordon* had been complicated exceedingly by changes in plans of APL at frequent intervals and requested that such changes in future be held to absolute minimum, implying that Nationalist Government was not disposed to consider many more requests for changes in *Gordon's* scheduled type of passengers or freight carried, etc.

Chinese Government decision will be forwarded immediately when received.

Sent Department Cantel 1092; repeated Shanghai 534, Nanking 674.

STRONG

195.91/9-949: Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, September 13, 1949—5 p. m.

308. Re telCan 661 Sept 9, rptd Taipei 300, Nanking 1078, Shanghai 1839. As of possible value expediting decision this question by Nat Govt authorities pls bring attn Chen Cheng⁵⁸ situation outlined ref and previous tels, together with APL counter-proposal and our view thereof. Stress strong demand Amers for evacuation and fact that US Govt personnel being brought out as result reduction offices Commie-held China. Within ur discretion also approach K. C. Wu⁵⁹ along foregoing lines, in view possibility he may be able reach ear of Gimo.⁶⁰

ACHESON

⁵⁸ Governor of Taiwan (Formosa).

⁵⁹ Former Mayor of Shanghai.

⁶⁰ Generalissimo Chiang Kai-shek, with headquarters on Taiwan.

393.1115/9-1449 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 14, 1949—3 p. m.

[Received September 14—6:57 a. m.]

3839. Following refusal exit permits key Caltex personnel, Chinese Management Committee sent letter to Alien Affairs Department SMCC⁶¹ asking reasons, citing infringement personal liberties, incomprehensible as American staff had relinquished management responsibilities to Chinese Committee set up with approval authorities under power attorney executed at American Consulate General and recognized by National City Bank, several important private Chinese commercial banks.

Alien Affairs Department orally explained Communist authorities as such had no intention withholding exit permits to foreigners so long as all outstanding business including labor questions settled and that labor objected in Caltex case.

Thereupon member Caltex Chinese Committee arranged 90-minute meeting with Secretary [of] Mayor Chen Yi, concurrently Secretary General CCP Shanghai, at which Caltex manager present. Session conducted entirely in Chinese and in presence Secretary's interpreter though former understood English.

Secretary reiterated statement Alien Affairs Department that Communist authorities have no intention withholding exit permits from any foreigner wishing to leave provided all unfinished business settled, that Caltex differences arise from demands labor, that deputy mayor now in Peiping "on the carpet" for unsatisfactory handling labor problems in Thai [*Shanghai?*], problem giving Shanghai authorities great concern.

Secretary was shown Chinese Committee's power attorney, New York cable outlining Caltex policy re remittances cover wage settlement in case stocks inadequate due belligerent action and copy letter to company labor union re severance pay, dismissal policy, offering terms far more liberal than maximum required by SMCC regulations August 19, on which company labor union obviously deliberately stalling in effort prevent departure American personnel. Copies these documents given Secretary at his request to show mayor in effort obtain mayor's approval for letter giving authorities' official recognition to Caltex Chinese Committee, apparently in effort to have showdown with labor.

⁶¹ Shanghai Military Control Commission (Communist).

Caltex impression Communist authorities view organize Chinese management committees with favor as getting foreigners out of China, simultaneously retaining trade benefits through management vested in Chinese hands but that labor prefers hold American key personnel as hostages, distrusts Chinese management committees especially their ability keep companies supplied with stocks remittances et cetera to meet whatever extortionate demands labor can dream up. Caltex feels its labor union doing everything possible prevent departure key Americans and successful operation Chinese general management committee.

Caltex interview with Secretary indicated Shanghai authorities fully aware undesirability present situation whereby city is subject to "government by labor" which will inevitably lead to chaos, but find themselves in dilemma as firm assertion authority overlapped by Communists might alienate support this most polity significant group, among few now supporting Communists. Ultimate showdown must come but probabilities are Communists will approach problem slowly, cautiously seeking to avoid necessity for use or even show force against labor.

However, following publication notices given [garble] September 14, Caltex and Stanvac personnel called at police station to obtain exit permits and were told that notwithstanding newspaper notice permits denied on application company's labor unions. In case Caltex refusal based on union's telephone call to police.

Caltex holding meeting September 15 with labor union seeking agreement following three points: (1) Exit permits for foreign staff; (2) Acceptance Chinese management committee; (3) Terms severance pay. Should these negotiations fail, company proposes call on SGLU⁶² for mediation.

These developments confirm earlier opinions American Chamber Commerce and Consulate General that key management technical personnel would be held as hostages by labor for ransom through delaying tactics in reaching agreement in severance pay, other matters.

McCONAUGHY

393.1115/9-749 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 14, 1949—5 p. m.

1874. Urtel 3700 Sept 7, rptd Nanking 1934, Canton 1086, Taipei 266, Hong Kong 231. Deptel 1804 Sept 6 was APL's own msg to its

⁶² Shanghai General Labor Union.

Shanghai agent. Dept passed FonOff note Aug 24 to APL for its info without comment and has also passed Downs' msg of Sept 8 to APL on same basis.

ConGen will recall that demand for evacuation facilities arose from Amers and other foreigners Shanghai and that APL itself announced and has made preparations for voyage. As has been repeatedly stated, this Govt has not underwritten project; it has endeavored secure from recognized Chi Govt assurance vessel wld not be molested by Nat armed forces during transit thru what is in effect zone of hostilities and has given appropriate assistance in removing obstructions to voyage. We have taken no cognizance "blockade" or "port closure", but in existing situation this Govt is in no position advise or order private vessels to enter or not enter Shanghai. We remain interested in seeing that as few obstructions as possible are placed in way of voyage, but conditions attached by Nat Govt are matter for consideration APL; it may be possible company can arrange better conditions, such as suggested reftel third para, which have now been proposed by APL and passed to ConGen Canton for communication to Nats.

In Dept's opinion question not one of what "we" are accepting (as mentioned in reftel and indicated in second para ur 3760 [3759] Sept 9), but rather what practical solution to difficult and complex situation can be found by those desiring arrange evacuation from theater of active hostilities.

ACHESON

393.1115/9-1449

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, 14 September 1949.

MY DEAR MR. SECRETARY: I wish to thank you for your reply of 7 September to my letter to you of 27 August,⁶³ concerning the SS *General Gordon*. The Department of Defense appreciates receiving such an extensive explanation of your viewpoint in this difficult matter.

I fully share your belief that every reasonable effort should be made to evacuate American citizens from Shanghai, and I can easily appreciate their full expectation now of being able to leave Shanghai very soon on the SS *General Gordon*. I also realize that the negotiations to effect this evacuation have culminated in written commitments from both the Communist and the Nationalist to guarantee safe passage of the ship although the nature of these commitments is apparently open to further investigation and clarification before they can be con-

⁶³ Latter not printed.

sidered satisfactory. Furthermore, I note with regret that according to your letter neither coastal steamers nor other facilities are now available in Shanghai for a call outside the harbor.

Calculation of the relative risks involved in this is obviously very difficult. The Department of Defense continues to believe, however, that entry of the SS *General Gordon* into the restricted waters of Shanghai constitutes a military risk unjustified as a reasonable effort to evacuate American citizens. This Department which had no part in the development of negotiations concerning this ship cannot concur in this apparent commitment of the United States. We feel strongly that we should not jeopardize United States passengers on this vessel nor the crew and the vessel itself. Nevertheless, we stand ready to assist your Department in every way to work out a method whereby United States citizens can be evacuated with the least possible risk to American interests.

Sincerely yours,

LOUIS JOHNSON

195.91/9-1549 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 15, 1949—3 p. m.
[Received September 15—3 : 52 a. m.]

479. Called on Governor early this morning re Deptel 308, September 13, also handed him *aide-mémoire*. He said matter not under his jurisdiction but will communicate with Ministry National Defense and Foreign Office. Endeavoring obtain appointment with special commissioner Ministry Foreign Affairs to discuss this matter so he will not feel I have gone over his head to Governor causing him loss of face. I plan tell him question referred to Governor in his capacity chairman Southeast Military and Political Headquarters.

Seeing K.C. Wu late this afternoon regarding same.

MACDONALD

195.91/9-1549 : Telegram

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

CANTON, September 15, 1949—3 p. m.
[Received September 15—2 : 32 p. m.]

Cantel 1100. Reference telCan 661, September 9, repeated Shanghai 1839, and Cantel 1092, September 13, repeated Shanghai 534. Foreign Office states willing omit inspection of *Gordon* and will accept master's affidavit reference cargo and passengers and intention to observe all agreed conditions. However, conditions number two now

stated to refer to necessity for Chinese naval pilots in view of presence of mine field off Yangtze through which there is navigable, but constantly altered, channel. Chinese naval vessel required to escort in order to take off pilots before *Gordon* proceeds up river. Foreign Office stated had no previous knowledge that boarding of ship mentioned in condition two was something apart from inspection required by condition four.

Whole of foregoing seems unworthy of credence. I advised Foreign Office that, if mine field given as reason for escort, *Gordon* almost certainly would not make proposed trip, that owners would not wish risk vessel, and that insurance companies would not cover vessel. I also predicated [*predicted*] that recriminations would be severe in the wake of any cancelation of trip, and that bulk would fall on Nationalist Government.

Regarding other points, Foreign Office believed willing forego right of inspection outward from Shanghai on basis previous affidavit from master, and not consider US government guarantee correctness of affidavit, but still insists no commercial cargo to be loaded out of Shanghai.

All of foregoing reported to local APL office evening September 14. Reference telCan 665, September 12,⁶⁴ substance of Cantel 1092 given verbally to local APL office evening September 12. In each instance APL head office in US notified at once by commercial cable by local office. This done in attempt speed communication of vital information to APL Headquarters.

Sent Department Cantel 1100, repeated Shanghai 536, Taipei 164.

STRONG

195.91/9-1649: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, September 16, 1949—9 a. m.

[Received September 15—10:31 p. m.]

480. ReContel 479, September 15. K. C. Wu called last night several hours after my visit to him and said he saw Governor Chen and had him telephone Admiral Kwei, now South Taiwan, to use his influence our behalf. Governor told Wu he in sympathy our request and telegraphed Minister National Defense following my visit. Wu and Wang Shih-chieh⁶⁵ sent joint telegram Foreign Office as representatives Generalissimo's headquarters strongly recommending that American

⁶⁴ Not printed.

⁶⁵ Former Chinese Minister for Foreign Affairs.

proposals be accepted. Generalissimo still Chengtu, otherwise Wu would have approached him.

Department may wish pass this information Embassy office Canton.

MACDONALD

893.00B/9-1949: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, September 19, 1949—9 a. m.

[Received September 20—11:17 p. m.]

753. White, representative for Standard-Vacuum and Butland, for Texaco, here, report Communist authorities say they cannot get exit permits until satisfactory labor settlement made connection turning over business to committee Chinese employees (Deptel 218⁶⁶). Butland says Foreign Affairs Bureau also told him turnover must be approved by Ministry Commerce Industry. This is example Communist withholding exit permits as club over foreigners (ourtel 726, September 12⁶⁷).

Chinese employee demands include (1) setting aside stocks equivalent 3 years' operating expenses to insure wages, (2) 1-year bonus. Matter referred Labor Bureau but decision not yet given. Pending outcome employees refuse allow any sales except enough cover wages.

White says newly published proposals for local labor regulations seem have no bearing on matter. As with many Communist regulations, they look good on paper but used or not used according Communist desires. White reports futility and frustration in dealings with Labor Bureau and a feeling of being completely at mercy of Communists. White and Butland request no publicity pending outcome.

SMYTH

393.1115/9-1949: Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 19, 1949—6 p. m.

[Received 9:28 p. m.]

3932. Dr. Robert Henry, President American Association, handling [*handing*] following memo to Chang Han-fu, Director Alien Affairs Bureau SMCC, today; in verbatim text:

"The American Association, an organization of American citizens residing in Shanghai, has been informed that the local authorities are

⁶⁶ August 5, not printed.

⁶⁷ Vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter II.

withholding exit permits from a number of American citizens. For example, it has been brought to the attention of the Association that exit permits have been withheld from certain individuals on the sole ground that they are skilled technicians whose services are deemed useful to Shanghai. In other cases labor unions are insisting that exit permits be denied to certain business executives on the premise that these individuals should be held personally liable for any existing or future claims for which the labor organizations may consider the companies concerned responsible. It is the opinion of this Association that such reasons are not valid grounds for preventing American citizens from leaving China.

The American community through its Association invites the attention of the authorities to the fact that such refusal of exit permits constitutes a denial of the fundamental human rights of individuals concerned. Certainly law-abiding Americans who have endeavored to comply with local rules and regulations should not be denied the right of departure. Since the reasons for the refusals appear unwarranted, the withholding of exit permits is deeply disturbing to the entire American community and to their relatives in the United States.

In view of the scheduled arrival of the *General Gordon* on September 23, it is our earnest hope that the authorities will promptly review the situation with respect to exit permits described above and expedite their issuance. We are confident that justice will then be done."

Please withhold publicity re above memo.

McCONAUGHY

393.1115/9-1949 : Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 19, 1949—7 p. m.

1915. Dept is releasing fol statement :

"The Department of State has instructed the American Consulate General at Shanghai to notify American citizens there that arrangements have been made for a call at Shanghai of the SS *General Gordon*, American President Lines vessel.^{67a} The ship, which is calling at Shanghai for the purpose of embarking Americans and other foreigners, is expected to arrive at Shanghai on September 23 and depart on September 25. The office of the American Embassy, on behalf of the American President Lines, has obtained assurances from the National authorities in Canton that the vessel will not be molested on the voyage to and from Shanghai and while in that port. The agent of the American President Lines in Shanghai has been in contact with the local authorities in Shanghai and has obtained permission for the safe entry and exit of the *General Gordon* for the purpose named."

ACHESON

^{67a} President Truman, on September 19, approved the sending of the S.S. *General Gordon* into Shanghai. (Information supplied by the JCS Historical Division.)

393.1115/9-1949: Telegram

The Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 19, 1949—7 p. m.

1916. Pls inform Amers in accordance immed preceding msg, which quoted Depts statement re *Gen Gordon* Shanghai call.

For ur confid info: Dept has informed APL that it has clrd the voyage. Other interested govt agencies have concurred this clearance.

ACHESON

393.1115/9-1949: Telegram

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

WASHINGTON, September 19, 1949—7 p. m.

TelCan 689. Pls communicate soon as feasible to FonOff as for its info Dept's statement re present status *Gen Gordon's* Shanghai call and take any final steps necessary finally to confirm to Nats details *Gen Gordon's* Shanghai call. (Subj of immed preceding msg.⁶⁸)

For ur confid info: Dept has informed APL that it has clrd the voyage. Other interested Govt agencies have concurred this clearance.

ACHESON

195.91/9-2149: Telegram

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

CANTON, September 21, 1949—noon.

[Received September 21—6:40 a. m.]

Cantel 1133. Reference telCan 685, September 18.⁶⁹ *General Gordon's* itinerary, markings, etc., communicated Foreign Office morning, September 20.⁷⁰ Requested Foreign Office pass information to Chinese Navy, Air Force, other armed forces. Foreign Office agreed do so immediately. Chen Tai-chu expressed satisfaction successful outcome *Gordon* evacuation plans and remarked "just as information" that French Government is sending *General Joffre* (sailing from Hong Kong October 6) to Shanghai evacuate French nationals and that French Government had accepted all conditions set forth in identical note sent US, British and French August 24 regarding evacuation ships.

⁶⁸ See No. 1915, September 19, 7 p. m., p. 1343.

⁶⁹ Not printed.

⁷⁰ The Department's telCan No. 690, September 20, 3 p. m., reported the *General Gordon* planned to leave Shanghai on September 25 and arrive at Hong Kong on September 27 (195.91/9-1849).

Reference telCan 689, September 19, Embassy unable pass Department statement regarding *Gordon* to Foreign Office since not received. Master of *Gordon* has completed affidavit required by Nationalists, in absence of which Foreign Office stated it would assume APL preferred inspection procedure. In fact Foreign Office tried insist *Gordon* not leave Hong Kong until affidavit delivered. Affidavit given Hong Kong office Ministry Foreign Affairs 7 p. m. for telephonic confirmation to Canton.

Embassy unable confirm other details of *Gordon* Shanghai call view absence information whether APL accepts Chinese naval vessel. Master has no instructions to speak of nor has local APL office received communication from head office US on this point. Master verbally given background of whole case by Embassy for his guidance.

Foreign Office has requested reply to its note of August 24 "for the record". Embassy plans give Foreign Office note whenever Department statement received but will make no reply Foreign Office note, merely state general terms on which *Gordon* calling Shanghai. Foreign Office obviously trying get in writing US acceptance of "closure".

Sent Department, repeated Shanghai 441, Taipei 171, by hand Hong Kong.

STRONG

393.1115/9-2149 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 21, 1949—6 p. m.

[Received September 21—8:23 a. m.]

3962. ReContel 3932, September 19, regarding appeal of American Association against withholding exit permits from American citizens. Robert Henry, President Association, called Alien Affairs Bureau noon September 19 to deliver memorandum and discuss matter. Front office sent memorandum in to Director Chang Han-fu who read it. Henry not received personally by Chang but by second-ranking official Feng Chih-ho. Feng expressed surprise after reading memorandum. Stated he thought foreigners were pleased at large number exit visas issued. He said it should be understood responsible person required take place foreign technicians or executives leaving Shanghai. Henry pointed out wholesale holding foreign executives at behest labor unions was hardly desirable. Feng admitted procedures still unsettled.

Feng asked what individuals had been refused exit permits. Henry mentioned several and offered provide complete list if required.

Feng said American Association could not represent individuals and each individual having complaint should present himself personally at Alien Affairs Bureau.

Feng then returned memorandum and translation to Henry (thus in effect refusing accept with request that Association ask individuals concerned to call at Alien Affairs Bureau). Henry describes Feng's attitude as "fair and not antagonistic".

Three Americans in the withheld exit permit group are calling at Alien Affairs Bureau to test readiness authorities reconsider their cases. Meanwhile Han Ming will endeavor sound Chang personally on his real attitude. Han suggests that, if Chang's office shows no disposition make concessions Association, then direct appeal to SMCC. (While it would presumably be too late by that time for applicants concerned to embark *Gordon*, such procedure might nevertheless prove beneficial from standpoint of later ship or plane departure facilities.)

Please withhold VOA press publicity pending clearance *Gordon*.

Please repeat paraphrase this telegram and ConGentel 3932 to Chase and National City Bank and Bank of America for restricted distribution to American firms having branch offices here.

McCONAUGHY

393.0015/9-2249 : Telegram

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

CANTON, September 22, 1949—1 p. m.
[Received September 22—11: 03 a. m.]

Cantel 1142. APL here reports message stating Shanghai office claims that in order avoid trouble will be obliged to carry about 10 Chinese passengers designated by Communist authority. Although nothing exists in writing with Foreign Office, Chinese Government does expect *Gordon* not carry Chinese Communists.

Have suggested APL consult Department, but in meantime indicated that, in my own opinion, since ship would be in Shanghai under immediate Communist control, such passengers would probably have to be carried and explained to Nationalists as result of *force majeure* exerted by Communists. However, we had understood that all conditions for entry of vessel had been arranged in Shanghai and, in absence of word to contrary, that no major conflicts between Nationalist and Communist requirements existed.

Sent Department, repeated Taipei 173, Shanghai 545; by hand Hong Kong.

STRONG

393.0015/9-2349 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 23, 1949—4 p. m.

[Received September 23—5:44 a. m.]

4008. Re Cantel 1142, sent Shanghai 545. APL Shanghai informs Consulate General no holders Chinese passports booked on *Gordon*, but have booked approximately 20 persons Chinese birth who hold foreign passports or IRO stateless travel documents in lieu passports.

Sent Department; repeated Canton 1128, Taipei 306, Hong Kong 269.

McCONAUGHY

393.1115/9-2549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, September 25, 1949—1 p. m.

[Received September 25—5:01 a. m.]

4015. *General Gordon* sailed from wharf Shanghai September 25 approximately 0400 hours. Final passenger list 1322 persons but due late cancellations only 1220 embarked. Details not yet available re these persons so will give breakdown by nationalities subsequent telegram. Entire operation before entry ship and during stay port entirely satisfactory. From beginning authorities cooperated fully, no unusual delays experienced either handling through customs household effects and heavy baggage which passed before ship's arrival, or embarking passengers and hand baggage. Ship sailed on schedule as set by APL. Communist authorities requested no outward cargo or passenger space on ship nor raised any objections small amount inward cargo aboard and no passengers. All formalities handled routine manner. Appears Communists went all out to make good showing especially during ship's stay in port.

Master reports inward bound ship arrived fairway buoy September 23, 0704 hours local time. Challenged by a Nationalist warship (ex US [garble]), "Please tell me when you will leave Shanghai", to which replied, "Expect depart September 25." "Permission granted proceed up river 0714 hours." *Gordon* did not stop, merely reducing speed during challenge. When speed resumed at 0714 warship soon left astern. Of interest to note Yangtze pilot boarded *Gordon* at Frisco and returned Frisco.

Following message just received from Navy Guam dated 0945 Shanghai time September 25, "Cleared Yangtze entrance for Hong Kong, made no contacts."

Sent Department 4015, repeated Canton 1129, Hong Kong 271, Taipei 308.

McCONAUGHY

393.1115/9-2649 : Telegram

*The Acting Secretary of State to the Consul at Shanghai
(McConaughy)*⁷¹

WASHINGTON, September 26, 1949—8 p. m.

1981. In view ConG request for info re nr official and non-official Amers "being held by Chi Commies" and increasing concern subject in US, fol info from Shanghai Nanking Hankow Districts requested:

1. Lists official non-official US natls who were specifically refused exit permits or had permits revoked for "failure meet local obligations" or other reasons, thus depriving them opportunity leave *Gen Gordon*.

2. In addition, number US natls deprived opportunity leave *Gen Gordon* through delays in issuance permits or for other reasons.

Other posts Commie-occupied China shld submit similar info re US natls where transportation available and permits refused or delayed.

WEBB

393.1115/9-2849 : Telegram

The Consul General at Hankow (Callanan) to the Secretary of State

HANKOW, September 28, 1949—10 a. m.

[Received September 28—4: 03 a. m.]

354. There have been no refusals nor revocations yet exit permits Americans. (Deptel 95, September 26⁷²) but for reasons unknown action has not been taken on application of Dr. and Mrs. Benjamin F. Gregory of Seventh Day Adventist Mission submitted same time as others which were granted.

Hankow group about 20 including 12 Americans left here September 22 probably too late for *Gordon* but delay believed administrative rather than deliberate.

CALLANAN

⁷¹ Repeated to the Second Secretary of Embassy at Nanking, the Consul General at Peiping, the Consul General at Tientsin, the Consul at Tsingtao, and the Consul General at Hankow as Nos. 1131, 663, 330, 290, and 95, respectively.

⁷² See footnote 71, *supra*.

393.1115/9-2949 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, September 29, 1949—3 p. m.
[Received September 29—6: 23 a. m.]

2192. ReDeptel 1131, September 26.⁷³ No official or nonofficial Americans Nanking district refused exit permits or deprived opportunity leave on *Gordon*.

BACON

393.1115/9-3049

The Acting Secretary of State to the Consul at Shanghai (McConaughy)

WASHINGTON, September 30, 1949—5 p. m.

2011. Dept appreciative ur handling *General Gordon* evacuation. While impossible forecast future developments which might alter case, Dept disinclined participate in laying on another evacuation ship comparable to *Gordon* operation in foreseeable future. Relatively small number Amers departing on *Gordon* in face of full publicity wld support conclusion that all those desirous leaving Shanghai have now left, with exception handful key businessmen for whom exit permits were refused. Possibilities exit by *Maréchal Joffre*, Jardine-Matheson air service and/or other occasional vessels wld seem to provide reasonable prospect for later departure those who may change minds. Given fact *Gordon* took some 800 non-Amers, ur office shld be able to arrange to have a call on a reasonable number of spaces in any British or French vessel. Accordingly Dept suggests that you do not encourage any hope or expectation that efforts similar to those made for *General Gordon* are likely to be forthcoming but seek to divert pressure in directions suggested above.

WEBB

393.1115/10-549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, October 5, 1949—5 p. m.
[Received October 5—8: 18 a. m.]

4201. Re Deptel 1981, September 26. No official American personnel Shanghai denied exit permits. Tentative tally by Consulate General

⁷³ See footnote 71, p. 1348.

shows 18 Americans remaining Shanghai more or less against their will. Variety individual problems and subterfuges authorities make tabulation into two groups by Department impractical. Names firms and summary reasons detention of 18 follows:

C. V. Schelke, Andersen, Meyer and Company, also President Shanghai American Chamber Commerce, applied for permit as test case. Name published *Chieh Fang Jih Pao* as recipient permit. When attempted obtain permit informed by police that company labor union had requested his detention plus one British, one Dane, members firm. Schelke told he "guarantor", that 200 employees closed Andersen, Meyer's plant would continue draw pay indefinitely. Schelke protested firm's Shanghai assets enough meet payroll 20 years but police insisted he remain as "hostage". Schelke believes labor union has relented on retention other two but thinks own case hopeless till authorities can control labor. Schelke actually not prepared leave Shanghai this time.

E. E. Petersen, J. J. Thompson, Chase Bank. Petersen's application permit never acknowledged despite at least 10 requests. Thompson's application accepted, referred SMCC and name published as recipient permit but then informed that "outstanding bank liabilities" and settlement labor troubles made his retention necessary. Bank attempting cut staff in view slack business. Labor union had written police requesting retention.

J. T. S. Reed, National City Bank. Reed refused apply due labor union troubles to ensure departure Starrett, Kathe [*sic*] of his staff. One British volunteered remain Starrett's place. To clear Starrett with American Club labor union at last minute, Reed took over Starrett's duties, obligations as Club Treasurer. Police also questioned Starrett one and one-half hours re "associations with Kmt" immediately prior his departure, apparently mistaking him for Reed who served on Kmt Mayor's advisory committee.

D. D. King, Northwest Airlines. King most flagrant example abuse power by labor and authorities. King had received exit permit, passed customs and was to board *Gordon* when delegation company labor union (only 25 union members) approached police official at gangway requested King be detained. Official without further reference headquarters barred King's boarding until union agreed. Union and King then had meeting, successfully concluded, but King returned to *Gordon* too late to board. Labor union now deciding whether allow King depart *Marshal Joffre*. King's American assistant, Farrel, departed *Flying Independent* without incident. Authorities now interested in NWA-Peiping-Tokyo shuttle service and may have wanted King's presence this account.

A. L. Branning, BOTRA. Understand Branning refused exit permit due noncompletion BOTRA contract terminating January, February 1950 despite direct appeal Alien Affairs Bureau. Branning skilled engineer responsible for raising part BOTRA fleet 25 ships sunk prior Shanghai takeover. Unable confirm as Branning in hospital.

P. H. Boardwell, Shanghai wharf warehouse, Robert Dollar affiliate. Labor union requested authorities refuse permit on [*in*] order obtain allegedly promised pension plan. Boardwell had assigned full powers to American Vice President but union thought only Boardwell had authority grant pensions.

Paul Hopkins, Shanghai Power Company. Applied Director Public Utilities for permission apply exit permit and was asked by SMCC withdraw request. Hopkins asked Director Public Utilities reconsider stand but agreed remain in effort assure departure ten other foreign staff. SMCC stressed need Shanghai for competent management power company based retention on this. No evidence labor disputes. Hopkins now given permission leave if substitute arrives.

F. F. Flanley, Shanghai Telephone Company. Followed Hopkins lead and did not apply after Hopkins turned down. Was told by Director Public Utilities he was essential continued efficient operation city telephones. Now attempting obtain permission bring in replacement.

W. W. McMillan, B. B. Hollimon, S. S. Marshall, Caltex. These three agreed withdraw applications after exit permits approved to assure departure rest foreign staff. Authorities and labor union refused accept Chinese Management Committee which made retention some American staff necessary. Labor union backed by authorities adamant that some Americans should remain ostensibly deal labor problems. Authorities and labor feel presence some Americans insures continued inflow supplies and continued operation companies.

J. V. Pickering, A. A. Shaw, J. J. Murphy, John Soong, Stanvac. Case similar Caltex. Stanvac attempted place competent Chinese at head firm's Chinese management committee, but choice warned by phone not accept. Labor union requested retention 7 Americans, but agreed to 4. Union claimed retention necessary until all future labor problems settled, although no dispute pending. Union backed at every turn by authorities, though Pickering sees evidence authorities unable fully control company union.

W. W. Orchard, American Express Company. Orchard told by police, after exit permit approved, People's Court requested withhold-ing exit permit in writing due suit for settlement pre-war deposit account filed by alleged depositor. No written complaint sent Orchard

nor date for hearing set. American Express closed books as of September 30 but permission dismiss staff close business not yet granted.

Consulate General suggests following summary reason retention:

Hopkins, Flanley: Authorities unwilling risk utilities breakdown inefficient operation through lack competent management. Possibly sincere.

Caltex, Stanvac: Refusal authorities accept Chinese management Committees due unwillingness risk shutoff essential POL⁷⁴ supplies which they feared would follow departure all Americans and labor pressure.

Chase, National City: Some labor pressure but Communists adamantly arbitrarily kept one or two men each bank. Orchard may fit this category as lawsuit looks phony.

King: Labor troubles ostensible pretext, but authorities apparently desired keep airline talks going.

Schelke, Boardwell: Labor troubles.

Branning: Valuable technician, BOTRA contract unfulfilled.

No missionary, educational personnel refused.

Consulate General cautious [*cautions*] above list may not be complete as exceedingly difficult gain information on Chinese-Americans and on several borderline cases.

McCONAUGHY

393.1115/10-749 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

[Extracts]

SHANGHAI, October 7, 1949—noon.

[Received October 7—1:35 a. m.]

4208. Remytel 4201, October 5. By refusal exit permits on one pretext or another to key American business personnel in each important American firm Shanghai, evidently as high level policy decision, possibly determined Peiping, Communists have tacitly recognized their dependence on services rendered by these American firms and essentiality of personnel detained to retard deterioration Shanghai economy. ConGen believes authorities jarred by large numbers foreigners desirous leave Shanghai, especially bulk American salaried business personnel, practically all of whom filed exit permit applications. Obvious that labor unions sought hold American key personnel as hostages guaranteeing continuous employment but even more significant was deliberate rejection of Chinese management committees

⁷⁴ Petroleum, oil, lubricants.

clearly at highest Communist levels Shanghai, and possibly under top level orders Peiping. Obviously by agreeing to Chinese management committees, authorities could very easily have "moved in" in these American firms after departure American personnel and in actuality taken over management themselves through labor union pressure, intimidation Chinese managements. In other Communist countries policy toward "monopoly capitalist" property often involved expulsion alien managements personnel and confiscation assets.

Although few of most essential key American business personnel left on *Gordon*, American companies were enabled reduce junior foreign staff substantially and their financial position temporarily eased. Not too much to say ship's call improved position all foreigners remaining Shanghai, to which calls by Isbrandtsen ships also contributed. However, Kmt interference with these ships without firm US action tends confirm Communists in their belief we tolerate if not support Kmt "blockade".

Round table of leading American businessmen with Counselor Jones prior his departure on *Gordon* disclosed general pessimism re prospects American business in Communist China, both short and long term, regardless whether Communist regime eventually recognized, with nonrecognition only giving deeper hue to outlook dark at best.

McCONAUGHY

893.00/10-2149 : Telegram

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

HONG KONG, October 21, 1949.

[Received October 21—8:17 a. m.]

911. First message from British Consulate General Canton indicates all quiet and no reports of American citizens in difficulties.⁷⁵

RANKIN

894A.1115/10-2749 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, October 27, 1949—noon.

[Received October 27—1:20 a. m.]

619. Because Taiwan if left to own devices must inevitably fall to Chinese Communist regime due to weight and costs of Kmt military

⁷⁵ Chinese Government troops evacuated Canton on October 14.

establishment here if nothing else, believe thought should be given now to American evacuation plans and preliminary consultations with Admiral Berkey ^{76a} are in progress (see my October 13 [12], 8 [2] p. m. unnumbered to ComSeventhTaskFlt and Department's relay of his reply ^{76b}).

Since Americans here expect first, second and third notices, would appreciate Department's opinion on timing and wording of first.

Also, does Department plan evacuate entire Consulate General staff as done Canton?

MACDONALD

393.1115/10-2849 : Telegram

*The Secretary of State to the Consul General at Taipei (Macdonald)*⁷⁷

WASHINGTON, October 28, 1949—7 p. m.

411. In view of recent exchange of tels between ConGen and Com 7th Task Flt re evacuation non-essential Amcits from Formosa, and with particular ref ur unnrd tel Oct 18 ⁷⁸ stating attempt will be made obtain departure such persons by ordinary means prior emergency, Dept desires know what steps if any being taken implement departure by ordinary means and whether normal shipping adequate handle evac.

View changed situation (Nanking's tel to Dept 89 Jan 12,⁷⁹ rptd Taipei) Dept desires ur comments re issuance general warning to Amcits this time. In view probable adverse effect morale Nat troops and officials and prestige ChiGovt resulting from public announcement such warning, believed advisable any warning this time be issued by confidential letter to Amcits or by oral means and evac carried out as unostentatiously as possible. Dept desires ConGen's comments re warning along fol lines:

"Military developments along China coast make it appear possible that hostilities may spread to points hitherto peaceful with result that normal transportation facilities from Taiwan may be disrupted. Those remaining under such circumstances might be subjected to undue hardships. Accordingly, it is suggested that you give early consideration to desirability evacuation while normal transportation facilities remain available."

ACHESON

^{76a} Vice Adm. Russell S. Berkey.

^{76b} Neither printed.

⁷⁷ Repeated to the Embassy at Manila for attention of the First Secretary (Terry).

⁷⁸ Not printed.

⁷⁹ *Ante*, p. 1215.

393.1115/10-3149

Memorandum by the Acting Secretary of State

WASHINGTON, October 31, 1949.

MEETING WITH THE PRESIDENT, MONDAY, OCTOBER 31

EVACUATION OF AMERICAN CITIZENS FROM FORMOSA

Admiral Dennison⁸⁰ was present at the time I summarized our views with respect to the citizens in Formosa, and both he and the President read the attached telegram No. 7398.⁸¹

The President said he was agreeable to our handling this matter in the manner indicated, at least for the immediate period. However, he stated that he desired real action in this matter and was particularly interested in getting out the American women and children. He said he felt a responsibility particularly to the children, and was willing to take strong measures to get them out. He indicated his feeling that the Communists could take Formosa almost on their own timetable, and that he did not wish to face another situation where Americans had remained behind with all the problems it involved.

In this same connection, the President mentioned the troubles we are having with our Consul General at Mukden⁸² and asked what progress we were making in getting communications through or getting the people out. I told him we had no direct communications but were making the strongest possible representation to the Communist officials. The President indicated that, if he thought we could get a plane in to bring these people out, he was prepared to take the strongest possible measures, including some utilization of force if necessary, and if he was sure it would be effective.

Admiral Dennison is to be kept informed completely on the Formosa matter.

JAMES E. WEBB

393.1115/11-149: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 1, 1949—11 a. m.
[Received November 2—12:48 a. m.]

648. ReDeptel 411, October 28, 7 p. m. Recommend with Terry's⁸³ approval that warning as worded in reference telegram be issued now

⁸⁰ Rear Adm. Robert L. Dennison, Naval Aide to President Truman.

⁸¹ See No. 411, *supra*.

⁸² For correspondence regarding the Consulate General at Mukden, see vol. VIII "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter I.

⁸³ Carroll M. Terry, First Secretary of the Embassy in the Philippines.

with addition of data on next 60 days' steamship sailings. Consulate General desires take no other action this time.

MACDONALD

125.925/11-149 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 1, 1949—6 p. m.

418. Urtel 619, Oct 27. Dept does not contemplate closing ConGen or evacuating entire Consulate staff in event Commies take over.

However, Dept will consider recommendations for reduction staff Taipei (reurtel 623, Oct 27⁸⁴) to minimum necessary personnel for operations under emergency conditions.

Prin[cipal] off[icer] has auth evacuate Amer personnel and dependents if requested by personnel or in his discretion under provisions Depcirtel July 28, 1949.⁸⁴

Re notice to Amers, see Deptel 411, Oct 29 [28].

ACHESON

393.1115/11-249 : Telegram

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

WASHINGTON, November 2, 1949—noon.

2201. In view inadequacy lateral cryptographic communications facilities, Embcirtel Aug 23, 4 p. m.⁸⁴ cancelled. Shanghai, Nanking and Tientsin instructed as follows:

In all cases involving Amers in ur district where clearly evident lack protection afforded by Commie auths, you are instructed (1) attempt protest through most effective or feasible channels to local auths citing circumstances, (2) tele info Dept with request that tel be rptd Peiping and (3) recommend whether or not Peiping shld at that time attempt lodge similar protest with central Commie auths. You shld keep Dept informed re outcome such cases. Re cases concerning which you have initially recommended Peiping not at time protest, you shld at any subsequent time you feel such protest desirable request Peiping do so, sending tel through Dept. Peiping to keep Dept informed re protests, with request that Dept rpt msg to post concerned.

ACHESON

⁸⁴ Not printed.

393.1115/11-149 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 2, 1949—7 p. m.

423. With view increasing confidential nature warning, incl[uding] avoidance press publicity, you are auth (urtel 648 Nov 1) issue oral warning reprs Amer official, commercial, mission and other groups and to non-affiliated individuals with request they pass in confidence to other Amer associates. Suggest keeping record names persons directly informed and those informed by each key person. Inform Dept date and text ur oral warning and reaction Amcits. Also keep Dept informed names any evacuees, ships and dates departure.

ACHESON

393.1115/11-149 : Telegram

The Acting Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 10, 1949—3 p. m.

446. In discussing with official personnel question evac their dependents (Deptel 423 Nov 2) ConGen, while pointing out that this is of course matter individual decision, shld impress upon them seriousness with which highest qtrs Wash regard safety Amer women and children Formosa, and cite fact that actions such personnel on warning will inevitably tend set example for Amer community.

WEBB

393.1115/11-1649 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 16, 1949—11 a. m.

[Received November 16—1:01 a. m.]

707. ReDeptel 423, November 2, 7 p. m. Started oral warnings November 15.

Sent Department; repeated Manila for Terry unnumbered.

MACDONALD

394A.1115/11-1849

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 18, 1949—7 p. m.

471. View issuance evac warnings Amcits Formosa and special concern for welfare dependents, Dept unable justify travel additional

dependents Formosa at this time. Dept therefore refusing passports all dependents, official and nonofficial, desiring proceed Formosa and discouraging such travel persons already in possession passports.

ACHESON

393.1115/11-1649 : Telegram

The Acting Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, November 23, 1949—7 p. m.

483. Deptel 462 Nov 15⁸⁶ and urtel 707 Nov 16 view deep concern with which highest qtrs Wash regard this matter, report immed all developments to date. Dept awaiting receipt Terry's mailed report re Taiwan evac details (Manila's 2628 Nov 19⁸⁶).

WEBB

393.1115/11-2549 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, November 25, 1949—5 p. m.

[Received November 25—7:01 a. m.]

745. ReDeptel 483, November 23, 7 p. m. Oral warnings continue as opportunity permits. Americans' reaction negative. No immediate departures expected.

American official reaction to Deptel 446 similar except in case of those previously caught on mainland none of whom should in our opinion remain here for second "liberation". Does Department contemplate replacing female employees here?

Sent Department 745, repeated Manila unnumbered.

MACDONALD

125.925/12-149 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, December 1, 1949—2 p. m.

505. After giving serious consideration all factors pro and con closure ConGen Taipei in event Taiwan threatened by Commie occupation or turnover, Dept has reached these tentative conclusions: (1) regardless developments ConGen shld be maintained long as practicable and feasible; (2) all ConGen wives children and female personnel shld be advised evacuate now.

⁸⁶ Not printed.

Dept has taken note fol factors:

1. Favoring maintenance: *a)* highly desirable US have listening post in island of such polit, econ, mil, and strategic importance; *b)* some form protection Amer cits and interests shld be maintained; *c)* closure now wld be blow to Nat morale and cause violent reaction certain groups US; *d)* closure wld make reopening later date difficult if not impossible; *e)* Taiwan's unsettled legal status might be lever in case unsatisfactory treatment Cons personnel by Commie auths.

2. Favoring closure: *a)* if Commies so ordered, ConGen cld be completely isolated like Mukden or severely restricted like Dairen, in either case making value as listening post nil; *b)* Commie occupation wld pose possible danger to staff's physical safety, in case fighting in Taipei, and personal welfare, in case incarceration; *c)* more severe anti-US feeling might arise than elsewhere as result Taiwan's position as last Nat bastion serving as base "blockade" and bombing Commie-held cities and from continuance ECA aid and concentration US mil supplies this area.

Dept wld appreciate ur comment on above factors and conclusions.

ACHESON

125.925/12-349 : Telegram

The Consul General of Taipei (Macdonald) to the Secretary of State

TAIPEI, December 3, 1949—1 p. m.

[Received December 3—7: 56 a. m.]

767. Following comments re Deptel 505, December 1:

1. Favoring maintenance:

(a) Under Communist domination restrictions on obtaining information would be so tight that Taipei would be useless as effective listening post;

(b) There are only 211 Americans in all Taiwan of whom 93 are US Government officials including their dependents. Sole [*Some?*] non-official Americans plan evacuate after New Year. American investment on island negligible except for very small missionary property holdings and US Government property and buildings;

(c) Closure now would be terrible blow Nationalist morale and might result in immediate collapse or turnover;

(d) No comment;

(e) Agree.

2. Favoring closure:

(a) Consulate General would be completely isolated and of no value as listening post;

(b) Fighting in Taipei unlikely but, even if so, it is doubtful staff would be in physical danger but in any event would be subject to greater physical discomfort in a place already uncomfortable;

(c) Without doubt more severe anti-US feeling would arise than heretofore due reasons advanced Deptel. In addition to Communist anti-US attitude, Formosans would turn against Americans as they feel we are responsible for their present position and will blame US for allowing Communists take Taiwan.

Conclusions: I strongly recommend this office be closed before Communist occupation or turnover. Even before receipt Department's reftel, I decided suggest consideration be given closing Consulate General on basis 2 C Deptel 505 and grounds that office would be useless as a listening post under Communists.

It is recommended also that all female members of staff be in possession transfer orders or home leave orders not later than January 1. Exact date their departure can be determined by principal officer depending on situation following receipt travel orders.

MACDONALD

893.48/12-1949: Telegram

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

SHANGHAI, December 19, 1949—1 p. m.

[Received December 19—6:10 a. m.]

5288. British ConGen Urquhart informed me last night (not for publication) that "relief ship" from Hong Kong is to be brought in probably last week of December under British Consular auspices. This will probably be small coastal ship chartered from Butterfield and Swire. It is to carry foreign passengers and mail exclusively. Since no cargo or Chinese passengers to be carried, British anticipate no difficulty in obtaining Nationalist safe conduct. British ConGen told me that his Government did not expect to show deference to Nationalist Government in this matter. Safe conduct would not be requested as favor. Nationalist Government will be informed that relief ship has been scheduled, with clear implication that safe conduct is taken for granted and that no interference expected. He believes he can obtain local Communist clearance for entry and departure of ship although prohibition of cargo and Chinese passengers will be unpalatable to Communists. Clearance of British FonOff, Treasury, Admiralty and Hong Kong Government already obtained. British had hoped to bring ship in before Christmas in order to cheer foreign residents at holidays season with long missing letters and packages from home but minor difficulties made this impossible. Custom duties of three and four hundred percent on merchandise consigned to foreign individuals here make shipment gift packages inadvisable in any case.

Urquhart assured me that he would give preference to American official personnel seeking to leave Shanghai. Anticipate that all US Government employees Shanghai, Nanking who are authorized to depart will be able to book on this ship. Officials other foreign governments will also be accommodated. Balance available space will be reserved primarily for British subjects. Since only approximately 100 passengers can be accommodated there will not be much room for private citizens of other nationalities. British ConGen hopes take care especially urgent cases.

This proposal will probably check, at least temporarily, agitation of Italian ConGen here for relief ships to be brought in under aegis consular body every 2 weeks in order to maintain communication with outside world and make possible departure of foreigners in desperate need of getting out.

McCONAUGHY

893.111/12-2049 : Telegram

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

HONG KONG, December 20, 1949—11 a. m.

[Received December 20—9:41 a. m.]

Cantel 1338. Nanking telegram 2579 to Department⁸⁷ quoting Tsingtao unnumbered telegram to Nanking December 8 to effect all foreigners to be allowed exit permits from Shanghai only. This measure would appear designed to stimulate interest of foreign governments in breaking Chinese Government closure of Shanghai, as only means of enabling their nationals to depart Communist China.

Sent Department Cantel 1338, repeated Shanghai 583, Hong Kong by hand. Department pass Nanking 687.

STRONG

893.111/12-2349 : Telegram

The Second Secretary of Embassy in China (Bacon) to the Secretary of State

NANKING, December 23, 1949—10 a. m.

[Received December 22—11:44 p. m.]

2646. Cantel 1339 [1338], December 20. Conclusion contained reftel apparently supported by alleged ruling appearing *North China Daily News* and *China Weekly Review* last week to effect that foreign resident may leave China only through his "port of residence" and must reside such port minimum 3 months to qualify as resident.

⁸⁷ Not printed.

ConGen has advised Embassy authorities Shanghai deny existence such ruling there; uninformed whether true for Tientsin. Nonetheless no retraction noted and local impression is that such ruling does exist at least for purpose preventing Shanghai residents proceeding Tientsin for embarkation.

Since early September all foreign residents Nanking have been obliged obtain China exit permits from authorities Shanghai.

Sent Department 2646; Department pass Hong Kong 844, Shanghai 1293.

BACON

893.48/12-2949: Telegram

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

SHANGHAI, December 29, 1949—5 p. m.

[Received December 29—9:40 a. m.]

5441. Following reported Nationalist mining of Yangtze estuary, resulting in breakdown all efforts to bring in relief ship to Shanghai, I discussed yesterday with Jose of PAA⁸⁸ probable receptivity of Communist regime to idea of foreign evacuation plane or planes. Despite steadily increasing need for transportation facilities out of China for benefit foreign community, now without any passenger ship service for nearly 2 months, Jose is confident that local Communist authorities will not consider authorizing entry and departure of foreign plane at this time. Even if Nationalist safe-conduct could be obtained, guaranteeing this city immunity from bombing, strafing, and reconnaissance by Nationalist planes for duration of flight operation, Communists apparently resolved prohibit any foreign flights.

Jose understands Jardine-Matheson last week made definite proposal to local Communist authorities to bring in Hong Kong airways relief plane New Year's day. Geddes of Jardine-Matheson informed Jose that authorities told him explicitly that no foreign planes would be allowed to land here for any purpose until (1) recognition accorded Communist regime and (2) Nationalist blockade of Shanghai broken.

This is another indication that Communists are trying to pressure foreign powers into breaking Nationalist blockade for them.

In view general refusal Communist regime to permit foreigners in Shanghai to proceed over land to either Tientsin, Tsingtao or Canton for evacuation, and complete collapse efforts to bring in ship, short-

⁸⁸ Pan American Airways.

range travel prospects are very dim for the many foreigners who are seeking to leave Shanghai. See ConGentel 5442, December 29.⁸⁹

Consulate General faced with growing problem of stranded US Government employees and dependents. Total such persons now awaiting transportation Shanghai is 32. Many of them including General Soule and Consul General Callanan already long delayed.

McCONAUGHY

702.0093/12-3049: Telegram

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

SHANGHAI, December 30, 1949—11 a. m.

[Received December 30—7:16 a. m.]

5445. ReConGentel 5442, December 29.⁸⁹ At same meeting consular body it is anticipated that following matter will be brought up.

Lorenzo Lo, head of IRO organization here, has approached consular body re possibility enlisting consular support for regular commercial entry under safe-conduct of large passenger vessel such as *General Gordon* in February, such vessel to take out approximately 200 IRO beneficiaries now qualified for resettlement, with additional space reserved for distribution to their nationals by the respective consuls. In this project IRO is receiving active support of local representative of AJJDC.⁹⁰ Asserted mining by Nationalists of approaches to Shanghai will probably render call of large passenger vessel such as *General Gordon* out of question and may render academic whole subject of relief by sea in near future.

It would appear that developments increasingly are pointing to necessity for establishing an avenue of entry into and exit from Shanghai by way of Tientsin and Taku Bar. Unfortunately grounds are growing for suspicion that Communists will continue to resist use of Tientsin as entry and exit point for foreigners residing in central China. Inquiry at Public Safety Bureau has elicited information that Shanghai authorities will not issue permits to leave from Tientsin to applicants Shanghai. Local authorities noncommittal re issuance of permits to proceed Tientsin and disclaim knowledge of reported 3 months' residence requirement there. However, one permit to exit from Tientsin issued to American citizen Branning connected BOTRA as exceptional case. Motivation re Tientsin exit permits appears to be dual: (1) Desire to exert pressure on Western countries to break

⁸⁹ *Ante*, p. 1188.

⁹⁰ American Jewish Joint Distribution Center.

Shanghai blockade as means for relieving their nationals caught in Shanghai, and (2) strong objections by North China Military Control Commission to entry unnecessary foreign observers into that area which they consider strategic.

Notwithstanding opposition Communist authorities to egress via Tientsin, it appears that best hope for departure foreigners stranded Shanghai is remote possibility that Communist authorities can be induced to permit them to leave via Tientsin taking special train or special cars from Shanghai which could be sealed if necessary. Department may wish to consider advisability broaching such a proposal.

McCONAUGHY

125.925/12-349 : Telegram

The Secretary of State to the Consul General at Taipei (Macdonald)

WASHINGTON, December 30, 1949—7 p. m.

600. For time being Dept plans maintain office Taipei. ReDeptel 505 Dec 1, urtel 767 Dec 3. This matter under constant review and you will be kept informed.

Transfer orders all female members ur staff shld have reached you by now. Wld appreciate ur recommendations for reduction staff to minimum necessary for operations under emergency conditions.

While Dept not contemplating order evacuation dependents of officers and staff, it believes this course desirable and urges those wishing do so make immed plans in view possible disruption transport facilities. Final decision whether to evacuate dependents left to discretion and full responsibility of individual officers and staff members.

ACHESON

PUBLICATION OF CHINA WHITE PAPER ¹

026 China/5-1749

Memorandum by the Secretary of State to President Truman

WASHINGTON, [May 12, 1949.]

MEMORANDUM FOR THE PRESIDENT

Subject: The Wedemeyer Report on China ²

For some time there has been a very deep interest on the part of various members of the Congress in the Wedemeyer Report on China. This has recently increased to the point where a decision should be made regarding the release of this Report.

The Report contains an independent and, in many respects, a realistic appraisal of the situation in China at the time of its preparation which might be advantageously placed before the American public. However, there are statements in the Report which, if released at this time, might have an undesirable effect abroad and others which would provide domestic critics of the Administration's policy toward China additional opportunities to attack that policy. The fact that most of the statements in the latter category are answerable probably would not prevent such attacks. Attached are (1) a copy of the Wedemeyer Report and (2) a memorandum analyzing the important portions of the Report.³

You will recall that the reason this Report was not released at the time of its submission to you was its recommendation that China request the United Nations to take immediate steps to bring about a

¹ The files of the Department do not indicate the origin of the proposal to prepare a white paper on China. Work was under way in April 1949 (026 China/4-2749). A memorandum of May 21, 1951, by the then Director of the Office of Chinese Affairs (Clubb) to the Assistant Secretary of State for Far Eastern Affairs (Rusk) stated that John F. Melby, of the Office of Far Eastern Affairs in 1949, who was continuously associated with the project, "said that there was no formal directive regarding the White Paper and that the clearance as to its preparation was broached with the Secretary, who consulted with the President, who gave the green light for its compilation." The project was regarded as of first priority, to be completed in one volume within a few weeks (023 China/5-2151).

² For report dated September 19, 1947, by Lt. Gen. Albert C. Wedemeyer to President Truman, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 764. For General Wedemeyer's mission to China, see *Foreign Relations*, 1947, vol. VII, pp. 635 ff.

³ Memorandum not printed.

cessation of hostilities in Manchuria and request that Manchuria be placed under a Five Power Guardianship (including the USSR) or, failing that, under a Trusteeship in accordance with the United Nations Charter.⁴ It was the opinion of General Marshall⁵ that the assumption by the United Nations of responsibility at that time for the solution of the problem of Manchuria would probably have been fatal to that organization and that for the Chinese Government to take such action would have undermined its prestige in China, as an admission that it could not act as sovereign over one of its own most important areas. It is understood that General Marshall informed Generalissimo Chiang Kai-shek,⁶ orally through one of the Generalissimo's trusted subordinates, of these reasons and that the Generalissimo himself took no steps which would have constituted disapproval of the failure of the U.S. Government to suggest formally to the Chinese Government that it seek United Nations action regarding Manchuria.

There are set forth hereunder three possible courses of action under which the Wedemeyer Report might be released :

1. The Report could be made available on a confidential basis to the Senate Foreign Relations Committee and the House Foreign Affairs Committee, as well as to those members of the Senate Subcommittee on Appropriations who have been most insistent upon having the Report made available. This course has the disadvantage that those portions of the Report which would provide ammunition for attacks upon the Administration might well find their way into the press. The effect of the publication of such portions out of context would be most undesirable.

2. The Report could be made available to the above-named Committees and simultaneously released to the press by the Department of State. This would have the advantage of ensuring the availability of the entire Report to the public rather than only those portions which might be utilized to attack the Administration. However, the release of the Report at this time would give undue emphasis to the recommendations of the Report in its relation to the over-all problem of United States policy toward China and the Report itself would thus be taken out of the larger context of our relations with China.

3. The Report could be issued as a part of a White Paper on United States policy toward China, which is now in the process of preparation and is expected to be completed for publication sometime in June. This

⁴ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031.

⁵ Gen. George C. Marshall, Secretary of State, January 1947-January 1949.

⁶ In 1947 he was President of the National Government of the Republic of China.

would place the Wedemeyer Report in its proper place in the context of the over-all problem of our relations with China.

I suggest for your approval, therefore, that the Wedemeyer Report on China be released as a part of the Department of State's White Paper on United States policy toward China and that I be authorized to inform the Senate Subcommittee on Appropriations, which is now pressing for the release of the Report, of the reasons why the Report was not previously published and to inform the Subcommittee also that the Department of State expects to release the Report as a part of a White Paper in the near future.

Due to the nature of the Report's comments upon the situation in Korea and upon certain aspects of the Korean leaders' activities, it is considered that the publication of those sections of the Report dealing with Korea would be harmful to the national interest and it is proposed, therefore, to release only the part of the Report relating to China.⁷

DEAN ACHESON

026 China/5-1749

Mr. Clark M. Clifford, the Special Counsel to President Truman, to the Secretary of State

WASHINGTON, May 17, 1949.

DEAR DEAN: The President has carefully read your memorandum to him with reference to the Wedemeyer Report on China. I am returning herewith your memorandum containing the President's approval of your recommendation that the Wedemeyer Report on China be released as a part of the State Department's White Paper on United States policy toward China. You are also authorized to inform the Senate Subcommittee on Appropriations of the reasons why the Report was not previously published, and to inform the Subcommittee that the State Department expects to release the Report as a part of the White Paper.

The President informs me that he agrees with you that developments in Shanghai⁸ would control the date of the release of the White Paper. The President asks that a draft of the White Paper be submitted to him for approval prior to its release.

Very sincerely yours,

CLARK M. CLIFFORD

⁷ Notation at end of memorandum: "Approved [.] Harry S. Truman". For section on Korea, see General Wedemeyer's report of September 19, 1947, to President Truman, *Foreign Relations*, 1947, vol. VI, p. 796.

⁸ For correspondence on this subject, see vol. VIII, "Problems of United States Consulates in areas occupied by the Chinese Communists", chapter IV.

026 China/6-1349

*Memorandum by the Acting Secretary of State of a Conversation
With President Truman*

[WASHINGTON,] June 13, 1949.

The President would like the White Paper on China sent to him as early as possible and has said he would like to read it all. He considers its issuance as one of our most important actions for some time to come. He asked if General Marshall had seen it and I told him he had read the chapter relating to his own activities.⁹ The President indicated that he thought it important that General Marshall read it in its entirety prior to its issuance. He also indicated that he considered it important that Secretary Acheson have an opportunity to read it, if possible.¹⁰

JAMES E. WEBB

893.00/6-2749

*Memorandum of Conversation, by the Deputy Director of the Office
of Far Eastern Affairs (Allison)*

[WASHINGTON,] June 27, 1949.

Dr. Tan¹¹ called at his request to raise under instructions from his Government two points. He first referred to the interview granted Mr. Kan Chieh-hou and the Chinese Ambassador by the President¹² and stated that he had been instructed to reenforce what had been said at that meeting with respect to the desire of the Chinese Government that Ambassador Stuart, upon leaving Nanking, call at Canton prior to returning to the United States.¹³ According to Dr. Tan, the President had informed Mr. Woodward, Chief of Protocol, at the meeting referred to that this was a subject for State Department consideration and had instructed Mr. Woodward to inform the appropriate official. I told Dr. Tan that Mr. Woodward had provided Mr. Butterworth¹⁴

⁹ General of the Army George C. Marshall was Personal Representative of President Truman in China, December 1945-January 1947. For correspondence on his mission, see *Foreign Relations*, 1945, vol. VII, pp. 745 ff., and *ibid.*, 1946, vols. IX and X.

¹⁰ Mr. Acheson was in Paris attending a meeting of the Council of Foreign Ministers, May 23-June 20, 1949.

¹¹ Shao-hwa Tan, Chinese Minister.

¹² See memorandum of June 22, p. 708. Mr. Kan was the Personal Representative of Acting President Li Tsung-jen of China; the Ambassador was Dr. V. K. Wellington Koo.

¹³ For Ambassador John Leighton Stuart's plans, see vol. VIII, "The Embassy in China after occupation of Nanking by Chinese Communists", chapter I.

¹⁴ W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

with a full report of the conversation referred to and that this Government would naturally give consideration to the views expressed by the representatives of the Chinese Government. I stated further that no definite date had been set for Ambassador Stuart's return.

Dr. Tan then raised the question of the reported publication by this Government of a White Paper on China. He said the attention of the Chinese Government had been called to articles in the American press predicting such a publication, particularly those in the *Christian Science Monitor* of June 4, the *New Republic* of June 15, and the *Washington Post* of last week. Reference was also made to the statement by Secretary Acheson at his last press conference that the Department did have such a paper under consideration but that no decision had been made regarding its publication. Dr. Tan stated that his Government was concerned lest any document which might be made public contain sections which could be lifted out of context by either unfriendly or uninformed writers and used in a manner which would be embarrassing to the Chinese Government. He said that he had been instructed to express the hope that the United States Government would take into consideration the possible ill effects on the Nationalist Government of the publication of any such document. I informed Dr. Tan that I personally had no connection with the preparation of any such paper but that I was certain that the considerations mentioned by him were receiving adequate attention and that, in any case, I would bring his remarks to the attention of the appropriate authorities.

026 China/6-3049

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] June 30, 1949.

CHINA WHITE PAPER

I informed the President of the steps recently taken to expedite this work. He approved of them, and said that he hoped the paper could be gotten out well before the adjournment of Congress and thought that the end of July would be satisfactory. He was anxious to have the paper made as good as possible during the time at our disposal. He thought that it was important to have a short paper stressing the highlights of the Chinese White Paper.

026 China/7-649

Memorandum for the President by Mr. Clark M. Clifford, the Special Counsel to President Truman

[WASHINGTON,] July 6, 1949.

CONCERNING DRAFT¹⁵ OF WHITE PAPER ON CHINA

I am sure the publication of a White Paper on China will be helpful to the American people in understanding the difficult and confused situation in China. However, in reading the draft, I noted some omissions which I fail to understand and which I am sure would raise a number of questions. These comments relate to Chapters I, II, III and IV. I have not seen V.

There appears to be a gap in the detailed narrative of U.S.-Chinese relations for the period December 1943 to August 1944. This was an especially critical period of the war, and very interesting politically, coming as it did after the Roosevelt-Churchill-Chiang conference in Cairo, November 1943.¹⁶

No reference is made to the Yalta conversations of President Roosevelt and Stalin on the Far East,¹⁷ or the Agreement on the Far East signed by Roosevelt, Stalin and Churchill.¹⁸ This extraordinary omission is all the more noticeable because the conversations of subordinates like Nelson¹⁹ and Hurley²⁰ with Stalin and Molotov²¹ on the subject of China are dealt with at some length. (Too great a length for what they are worth, it seems to me.) The Yalta agreement, among other things, pledged the Soviets to conclude a "pact of friendship" with Chiang's Government. This was the direct antecedent of the Sino-Soviet treaty of August 1945.²² I believe that failure to refer to Yalta in the White Paper openly and frankly would bring so much criticism that the value of the White Paper would be seriously diminished.

¹⁵ Not printed.

¹⁶ For communiqué issued by President Roosevelt, British Prime Minister Winston S. Churchill, and Generalissimo Chiang Kai-shek, released December 1, 1943, by the White House, see Department of State *Bulletin*, December 4, 1943, p. 393. See also *Foreign Relations, The Conferences at Cairo and Tehran, 1943*.

¹⁷ See *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 894. Marshal I. V. Stalin was Chairman of the Council of Commissars of the Soviet Union.

¹⁸ Signed February 11, 1945; *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

¹⁹ Donald M. Nelson, Chairman of the War Production Board, Personal Representative of President Roosevelt in China, 1944.

²⁰ Maj. Gen. Patrick J. Hurley, Personal Representative of President Roosevelt in China, 1944; Ambassador in China, November 1944–November 1945.

²¹ V. M. Molotov, Soviet Commissar for Foreign Affairs in 1945.

²² Signed at Moscow, August 14, 1945; United Nations Treaty Series, vol. x, p. 300, or Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 585.

A great deal is made of the importance of Chinese-Soviet relations (especially in Chapter III) and yet the important conferences in Moscow in the summer of 1945 between T. V. Soong and Molotov²³ resulting in the Treaty of August 1945 are dismissed in a brief footnote. There was a close relationship between the terms of this treaty and the U.S.-British-Soviet agreement signed at Yalta.

Repeatedly it is stated or implied that the basis of American policy (of trying to bring the Nationalist Government and the Chinese Communists together) was our desire to enable China to prosecute the war against Japan more effectively. If this was truly the basis of our policy, it is all the more surprising that only the most casual notice is taken in the White Paper of the end of hostilities in August 1945, and no effort is made at all to explain what effect (if, indeed, there was any) the end of the war had on our Chinese policy.

I have a number of doubts about Chapter IV. All of them relate, I believe, to one point: the Chapter seems to lack the perspective and the point of view that a review at this date should have. It reads as though it has been compiled by paraphrasing day-to-day reports prepared in the office of General Marshall's mission. It seems rambling, repetitive and too long. Chapter IV also departs from the tone of the earlier Chapters by expressing a number of opinions and judgments on persons and events which seem out of place in a White Paper. These apparently were in contemporary documents, and have remained because of insufficient editing. It is noted that on page 53 and page 86 comments are made at the expense of the Chinese people which could well be resented by them.

Equally out of place are praise of Americans and caustic criticism of Chinese. On page 74 of Chapter IV, Ambassador Stuart is highly praised. Without in any sense wishing to detract from the credit due to Dr. Stuart, it seems improper for such praise to appear in a White Paper. It is also inconsistent for no other Ambassador of the many named in this document is praised—or condemned. It is certainly an exaggeration, if not an inaccuracy, to state that American members of field teams "accomplished miracles" in bringing about cooperation between the Nationalists and the Communists (p. 21, Ch. IV). The entire section on the Executive Headquarters (pp. 17-25, Ch. IV) bears a strong "pro-American, anti-Chinese" slant.

One final comment. I understand a White Paper to be an expression of the United States Government. Just as I do not believe the White Paper can omit Yalta on the grounds that Yalta was "White House,"

²³ For mission to Moscow of the President of the Chinese Executive Yuan, T. V. Soong, see *Foreign Relations, 1945*, vol. VII, pp. 851 ff., *passim*.

I do not believe the Paper can avoid Stilwell ²⁴ and his role in China by saying "It was an Army matter of no concern to the State Department." It would appear to be a matter of considerable concern to this Government.

I understand that a substantial re-writing job is to be done. If the later chapters can be brought up to the excellent level of Chapters I and II, the White Paper will be an important historical document of far-reaching significance and wide public interest.

Very respectfully submitted,

CLARK M. CLIFFORD

026 China/7-849

Memorandum by Mr. Lucius D. Battle, of the Executive Secretariat, to the Director of the Executive Secretariat (Humelsine)

[WASHINGTON,] July 8, 1949.

The Secretary handed me yesterday the attached memorandum from Clark Clifford to the President ²⁵ regarding the White Paper on China. The Secretary asked that this paper be returned to the President under cover of a memorandum indicating that Ambassador Jessup ²⁶ has gone over this matter with Mr. Clark Clifford and that the points raised by the President with the Secretary will be met.

L[UCIUS] D. B[ATTLE]

026 China/7-849

Memorandum by the Secretary of State to President Truman

[WASHINGTON,] July 8, 1949.

Subject: White Paper on China

Ambassador Jessup spent three-quarters of an hour yesterday discussing with Mr. Clark Clifford the latter's memorandum to you concerning the draft of the White Paper on China. Ambassador Jessup was able to explain to Mr. Clifford that many of the points noted had already been taken care of in the redrafting which was under way, and that every effort would be made to meet the other suggestions. On certain points, Mr. Clifford agreed with Mr. Jessup that problems of

²⁴ Lt. Gen. Joseph W. Stilwell, Commanding General, U.S. Army Forces in the China-Burma-India Theater and Chief of Staff to Generalissimo Chiang Kai-shek, Commander in Chief of the China Theater, 1942-1944.

²⁵ *Supra*.

²⁶ Philip C. Jessup, who attended the Paris meeting of the Council of Foreign Ministers with Secretary of State Acheson, was assigned by the latter at the end of June to assist with the preparation of the White Paper.

practicability would necessarily determine the extent to which all of the points noted could be fully covered.

DEAN ACHESON

893.00/7-1149 : Telegram

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

CANTON, July 11, 1949—10 p. m.

[Received July 12—8:10 a. m.]

Cantel 717. Evidencing the increasing perturbation in Government circles over possibility release our white paper [on] China, Cantel 710, July 11,²⁷ was Vice Foreign Minister Tung Ling's comment to me today that if white paper is issued, Chinese Government would likely issue comparable document their side of picture beginning with Yalta.

CLARK

026 China/7-1549

Memorandum by the Director of the Office for Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] July 15, 1949.

At a White Paper meeting in Ambassador Jessup's office this forenoon, Mr. Gross' assistant Mr. Howard²⁸ stated that the bipartisan foreign policy might be importantly jeopardized by the issuance of the White Paper since Senator Vandenberg²⁹ had indicated his opposition to its publication at a time when sizable areas on the Mainland and Formosa have not fallen under Chinese Communist control. Quite apart from the validity of this view, it occurred to me that an approach might be made to Senator Vandenberg to the effect that, in the interest of preserving and possibly extending the area of bipartisan foreign policy, if his party in Congress would refrain from ex parte attacks on the Government's China policy, the issuance of the White Paper would be delayed indefinitely or at any rate until such a time as the National Government was no longer functioning in an important area in China. There is also to be said in favor of such a procedure that the issuance of the White Paper dealing as it does importantly with the Generalissimo may have unforeseeable consequences on the Formosan situation.

²⁷ Vol. VIII, "Political and military situation in China", chapter VI.

²⁸ John H. Howard, Assistant to the Assistant Secretary of State for Congressional Relations (Gross).

²⁹ Arthur H. Vandenberg, of Michigan, ranking Republican member of the Senate Committee on Foreign Relations.

It is, of course, a question as to whether Senator Vandenberg personally can bring his own party to accept such a procedure. If he cannot do it, or will not attempt it, you will have made a contribution vis-à-vis him in preserving the bipartisan foreign policy to which he has in the past contributed so significantly.

For my part, I do not think that the momentum for publication has gone so far that a contrary decision can not be made now if it is in the larger interest to do so. There would, of course, be a squall but not a storm through which one could not ride.

There is this further consideration that the decision to refer the White Paper for concurrence to the NME³⁰ will, I think, in all likelihood result in either a refusal of concurrence or fairly widespread recommendations for change which at the least will entail delaying the publication date. Will not this become known with unseemly results? If this be so, should not time be taken by the forelock and an immediate approach made to Senator Vandenberg?

W. W[ALTON] B[UTTERWORTH]

026 China/7-1849

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] July 18, 1949.

CHINESE WHITE PAPER

The President told me that Mr. Clifford had reported to him that the White Paper, as edited, was greatly improved and was, in Mr. Clifford's judgment, an excellent paper. The President was pleased by this.

I pointed out the difficulties which might arise through our consultation with the Military on the subject. The President does not wish to have the Paper "watered down" and will give us all possible assistance in dealing with the Military.

D[EAN] A[CHESON]

³⁰ National Military Establishment.

026 China/7-1949

*Memorandum of Conversation, by the Assistant Secretary of State
for Congressional Relations (Gross)*

[WASHINGTON,] July 19, 1949.

Participants: Senator Tom Connally,³¹ Secretary of State Acheson,
Dr. Francis Wilcox,³² and Ernest A. Gross.

The Secretary called on Senator Connally to advise him that the China White Paper would be issued next week, and to discuss with the Senator consultations with the Committee regarding the White Paper and the development of Far Eastern policies in the future.

The Secretary stressed to Senator Connally the desirability of assuring bipartisan consultation regarding these matters. The Secretary said that he had discussed this with the President and was authorized to take up what was in effect the offer made by Senator Vandenberg on the floor of the Senate on June 24, 1949, for close liaison between the Executive and Congress on Far Eastern policy.³³ Senator Connally said he thought it was a good idea "to get the Republicans in". The Senator also agreed with the Secretary that meetings with the Foreign Relations Committee would be a good method of maintaining bipartisan relations.

The Secretary offered to meet with the Committee prior to the issuance of the White Paper for the purpose of informing them about it and of discussing with the Committee procedures by which the Secretary intended to have studies made of Far Eastern policies in the future. At this meeting with the Committee the Secretary would also indicate his desire to consult with the Committee regarding recommendations which might be made to the Secretary by his advisers. Senator Connally thought it was a very good idea for the Secretary to meet with the Committee for the foregoing purposes and also the Secretary to meet with the Committee at fairly frequent times to discuss Far Eastern developments and policies on a confidential basis.

³¹ Chairman, Senate Foreign Relations Committee.

³² Chief of Staff, Senate Foreign Relations Committee.

³³ Following an exchange in the Senate on the subject of recognizing the Chinese Communists, Senator Vandenberg observed there "was no such liaison in respect to China policy" and "I disassociate myself . . . from the China policy which we pursued"; see *Congressional Record*, vol. 95, pt. 6, p. 8294.

Senator Connally said he thought it would be desirable to hold up action on the nomination of Walton Butterworth³⁴ until after issuance of the White Paper. The Secretary agreed.

E[RNEST] A. G[ROSS]

026 China/7-2049

Memorandum by the Ambassador at Large (Jessup) to the Secretary of State

[WASHINGTON,] July 20, 1949.

Mr. Halaby, who has been our contact with the National Military Establishment and with Secretary Johnson³⁵ personally in regard to the White Paper, summarized over the phone the NME position.

There are two major points. The first is the security angle which they consider an extremely serious substantive matter. This is being taken up by Mr. Park Armstrong,³⁶ who is our member of the USCIB.³⁷ The second major point is that Secretary Johnson believes that as a Cabinet member and not merely as the Military Adviser of the President, he is bound to raise with you and perhaps with the President himself the basic policy question of the publication of the Paper. He raises the fundamental point that by the publication, exposing the only group in China which we could assist, we are destroying that group. Secretary Johnson has been informed by Halaby that this fundamental question was thoroughly canvassed and weighed by you and by the President but he still feels a responsibility to bring it up again. He will presumably do this directly with you.

On the time schedule, Mr. Halaby informs me the Joint Chiefs will have their final meeting tomorrow morning and that you may expect to receive Secretary Johnson's letter by noon tomorrow.

In the light of the above and of our conversation this morning, we have decided to defer our publication date. We are meeting this afternoon with the interested officers of the Department to fix a revised schedule.

PHILIP C. JESSUP

³⁴ As Assistant Secretary of State for Far Eastern Affairs.

³⁵ Louis Johnson, Secretary of Defense.

³⁶ Special Assistant for Research and Intelligence.

³⁷ United States Communications Intelligence Board.

026 China/7-2149

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] July 21, 1949.

CHINA WHITE PAPER

I informed the President of the reasons for the postponement of the date of publication for one week, and of the possible objections by the NME. The President was of the opinion that we should proceed with the publication as now planned.

I told him also of my discussion with Senator Connally and he approved the arrangements for cooperation with the Committee which we were now making.

026 China/7-2149

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, 21 July 1949.

MY DEAR MR. SECRETARY: I am leaving with you a copy of the views of the Joint Chiefs of Staff concerning the China White Paper. They were handed to me as I was leaving the office and I am giving them to you in advance of a letter explaining my position. This letter will reach you later in the day.

Sincerely yours,

LOUIS JOHNSON

[Enclosure]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense
(Johnson)*

WASHINGTON, 21 July 1949.

Subject: The China White Paper.

1. This memorandum is in response to your memorandum, dated 16 July 1949,³⁸ in which the comments of the Joint Chiefs of Staff on the China White Paper, with draft letter of transmittal to the Presi-

³⁸ Memorandum not received by the Department.

dent,³⁹ both prepared by the Department of State, were requested as a matter of urgency.

2. In view of the urgency of this matter and the voluminous nature of the State Department document, it has been impossible to determine the precision of the innumerable statements of fact and figures, contained therein. The document and its letter of transmittal, however, have been carefully read and considered, and, on this basis, the following comments are made.

3. The draft letter transmitting the China White Paper from the Secretary of State to the President summarizes very well the tenor and the general content of the China White Paper. It is recommended that it be carefully read.

4. The China White Paper is consistent with its title, "A Record of the Years 1944-49 with an Historical Introduction". It is most comprehensive and its documentation is extensive. The chapter headings of the Paper itself indicate the contents of the eight chapters. The Record includes not only a chronology of the events which took place, but also comment and opinion regarding these events, either direct or in the form of concurrent quoted statements, messages, and reports.

5. Quotation of these statements, messages, and reports raises certain possibly serious questions with respect to the security of classified documents and the security of our cryptographic systems. With respect to classification, it is noted that messages and reports originated by General Stilwell are quoted in Chapter III, that messages originated by Lieut. General Wedemeyer (in his capacity as Commanding General of United States Armed Forces in the China Theater) are quoted in Chapter V, and that messages and a final report by Major General Barr⁴⁰ are quoted in Chapter VII. Since the Department of the Army is the official custodian of this material, the question of declassification as necessary should be handled with that Department.

6. With respect to cryptographic security, not only military, but also Department of State communications that have been transmitted by electrical means are involved. Expert opinion is that, because of interrelationship of the various cryptographic arrangements, jeopardy to the security of our departmental system constitutes jeopardy to the security of other departmental systems. Therefore, unless appropriate steps are taken by means of effective paraphrasing where necessary and omission of unduly specific data, cryptographic compromise of serious national security consequence might result.

³⁹ For letter of transmittal, dated July 30, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. iii.

⁴⁰ Maj. Gen. David G. Barr, Director of the Joint U.S. Military Advisory Group (JUSMAG) in China; for further correspondence, see pp. 472 ff.

7. The Joint Chiefs of Staff, although they believe that this question has been considered in the compilation of the China White Paper, have been unable to assure themselves that the risk of compromise has been completely removed. Therefore, although they realize and regret that delay in preparation of the paper in its final form will, because of the great volume of material that may be in question, thereby be entailed, they must recommend, as a matter of military responsibility, that the United States Communications Intelligence Board be designated to consider the question of cryptographic security with respect to the China White Paper and to assist as necessary in insuring that the Paper meets cryptographic security requirements.

8. It should particularly be noted that the China White Paper contains nothing, either direct or by implication, in any way critical of or derogatory to the National Military Establishment or to any of its Departments or their personnel. On the contrary, the contents of the Paper place the National Military Establishment in a creditable light throughout.

9. The China White Paper, as indicated in its letter of transmittal, amounts largely to a report intended to establish, step by step, the impracticability of the United States having prevented development of the present China situation without massive overt intervention. It contains no specific consideration of future possible developments in China, nor does it make any proposals with respect to the future position or action of the United States regarding China. The letter of transmittal from the Secretary of State to the President does, however, contain in its last three paragraphs an indication of what might hereafter in general be our China policy.

10. In the light of the foregoing brief description, and subject to the action recommended in paragraphs 5 to 7 above in the interest of assuring classification and cryptographic security, the Joint Chiefs of Staff perceive no major strictly military objection to publication of the China White Paper. There are, however, as discussed below, certain indirect military implications and other points of military interest in the Paper which they feel should be covered.

11. Apart from security considerations, decision as between publication and nonpublication of the China White Paper is manifestly beyond the cognizance of the Joint Chiefs of Staff. Nevertheless, if publication should result in materially decreasing or postponing the possibility of containing or reversing the Communist trend in China, this would have very grave national security implications in view of the enormous differential, strategically speaking, between a friendly and a Soviet-controlled or Soviet-allied China.

12. While the China White Paper is primarily factual and, on the whole, lets the record speak for itself, the cumulative effect of its many

hundreds of pages of fact, opinion, and clarifying comment is one that is highly derogatory to Generalissimo Chiang Kai-Shek and the Chinese Nationalist Government. Regardless of whether or not the unfavorable conclusions inevitably to be drawn from the contents of the Paper as to their character and intelligence are fair, the record as compiled risks the incurrence of their deep and lasting resentment. This, because of racial and national pride, might also be the reaction of the Chinese people as a whole.

13. Unavoidably, the Paper, in recording so extensively the shortcomings of the Nationalist Government, makes it possible readily to draw the inference that the Chinese Communist Party is, by contrast, far less culpable. Although such an inference is certainly not intended, and both the Paper and its letter of transmittal make it clear that Communist domination of China is altogether unacceptable to the United States Government, their contents in many respects could prove very valuable for use as Communist propaganda.

14. It can be foreseen that the Paper in its demonstration of the relative futility to date of United States assistance to China, might cause public disinclination to support any future Chinese assistance. The point here is not one of whether or not additional assistance should be later undertaken, perhaps on different terms and in the light of unpredictable future developments. It is simply that flexibility of Governmental decision might be jeopardized.

15. Paragraphs 11 to 14 above are based solely on the conviction of the Joint Chiefs of Staff that the military implications of an irrevocably Communist China are very serious in terms of our national security. Admittedly, the situation there is indicative now of an almost overwhelmingly Communist trend. The Communist successes in China, however, make it all the more important that there be no avoidable obstacle to any steps that may be found practicable for containing or reversing that trend. Publication of the China White Paper might well constitute such an obstacle.

16. In connection with the foregoing possible implications of the China White Paper, the Joint Chiefs of Staff note that the over-all question of United States Asiatic policy, a matter of extreme and far-reaching importance in terms of our national security, is now under consideration by the National Security Council. They note, as previously stated, that the Paper itself does not embody any specific considerations of future possible developments in China or of future United States policy regarding China, but that the Paper's letter of transmittal contains in its last three paragraphs some general consideration of our future China policy.

17. It is the considered opinion of the Joint Chiefs of Staff that neither the document nor the letter of transmittal should undertake

consideration of future Chinese developments or policy, since this would tend to influence and restrict in advance the National Security Council's conclusions as to our Asiatic policy. Furthermore, if consideration of our future China policy is to be retained in the letter of transmittal, the Joint Chiefs of Staff are not prepared to agree that the policy generally outlined in the letter's last three paragraphs is, from the military viewpoint, necessarily best.

18. The China White Paper contains many messages and reports originated by General Marshall, General Stilwell, Major General Hurley, Lieutenant General Wedemeyer, and Major General Barr. The Joint Chiefs of Staff feel that it should be made clear that the opinions of these officers, as reflected in their messages and reports, are their personal and individual opinions and do not directly commit the National Military Establishment to their views, and that Lieut. General Wedemeyer and Major General Barr, who are still on active duty, have not reviewed the portions of the Paper and letter of transmittal dealing with their messages and reports. General Marshall, Major General Hurley, and Lieut. General Wedemeyer (during his special mission status) were not, in fact, functioning as representatives of the National Military Establishment when their opinions were expressed. In all cases, there would be an impression, if uncorrected, that the National Military Establishment's official views have had much greater influence than actually was the case on the course of our Governmental policy towards China to date. This might extend even to an impression that the National Military Establishment had collaborated in, rather than commented on, the Paper.

19. The Joint Chiefs of Staff object to the publication of the China White Paper until (a) there is assurance that there exists no cryptographic compromise (b) action has been taken to assure that there exists full authority for declassification of material of which the Department of the Army is the custodian. Further, they wish to emphasize that:

a. They are not committed to agreement, from the military viewpoint, with all the views expressed or implied therein;

b. They reserve their opinion regarding the question of future United States policy toward China pending consideration of this question by the National Security Council;

c. The action recommended in paragraph 7 above is essential as a precaution against possible cryptographic compromise of serious national security implications; and

d. They earnestly believe that the China White Paper should be published only after the fullest consideration of all comments and suggestions contained herein.

For the Joint Chiefs of Staff:

LOUIS DENFELD

Admiral, U.S. Navy

893.00/7-2149

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, 21 July 1949.

DEAR MR. SECRETARY: I refer to our conversation of this afternoon regarding the China White Paper. As you will recall, I left with you advance copies of the comments of the Joint Chiefs of Staff with respect to that Paper. These had been prepared in response to your telephone request to me on July 15, 1949.

I am very glad to have your assurance that nothing will be said or written by the Department of State which indicates that the National Military Establishment, or its officials, have participated in the preparation or publication of the Paper. We clearly understand it has been prepared from your files and will be published on your initiative and responsibility. We have acceded to your request to comment on the Paper and hope that our comments will be helpful.

We have two major questions about the China White Paper: Does its publication serve the national interests? Have adequate security precautions been taken to provide for security of documents and codes?

On the first point I concur with the views of the Joint Chiefs of Staff that you and the President should carefully consider whether the usefulness of this Paper in clarifying recent history is greater than the risks inherent in the disclosures which are made. The responsibility for publication is yours, and I am certainly not recommending that the document be withheld from the public. I am, however, expressing to you concern as to how this publication will affect future developments in China.

On the question of security, I do not believe that the Secretary of State nor the Secretary of Defense can afford to take any risks with our codes or with classified documents, and I am certain that you will agree with me that you and the President should have the assurances of the United States Communications Intelligence Board, the top level agency concerned with these matters, that these risks have been avoided or reduced to an absolute minimum. I have instructed the military representatives on USCIB, as well as the Department of the Army, to expedite clearances of the documents involved.

Sincerely yours,

LOUIS JOHNSON

026 China/7-2549

Memorandum by the Acting Deputy Director of the Office of German and Austrian Affairs (Byroade⁴¹) to the Secretary of State

[WASHINGTON,] July 25, 1949.

At the suggestion of Mr. Humelsine, I have read the significant portions of the proposed white paper on China. It is my understanding that you desire my recommendations on the following two questions.

Question 1: *Is publication of the proposed white paper in the national interest?*

In considering this question, I believe account must be taken of the following:

(a) *Timing of the Report.*

By its very nature the white paper has a note of finality. It is an indication that the events to which it relates have reached the stage where nothing further can be accomplished and the facts can be exposed. While from a practical point of view this state of affairs may have been reached in China, nevertheless I feel the State Department is subject to justified criticism if the report is published at this time. While there can be no doubt that the National Government of China is on the way out, that government, with all of its inherent weaknesses and its present state of collapse, is still endeavoring to fight the spread of communism. Voluntary criticism of that government at this stage would undoubtedly hasten its final collapse and provide additional emotional reaction within this country. Such public criticism of a national government which this country still recognizes and which is at this time still a member of international organizations such as the UN and the FEC⁴² would be hard to justify.

I believe, therefore, that we should await a further development in the Chinese picture which would cause the general public to realize that the National Government of China was a government in name only and that as a *de facto* situation had completely lost its power to resist. Such a development would be the fall of Canton, which has become symbolic of the last stronghold of the National Government. I am no longer closely in touch with the situation, but understand the fall of Canton may be expected during the month of August. Unless we are irrevocably committed to publishing the white paper by a

⁴¹ Col. Henry A. Byroade in January-June 1946, was Director of Executive Headquarters at Peiping, in furtherance of General Marshall's Mission to China.

⁴² United Nations and Far Eastern Commission.

certain specified date, I would strongly recommend withholding its publication until after the fall of that city.

(b) *Effect of Release of the White Paper in the Far East Generally.*

The appearance of finality of the white paper has been mentioned above. We must consider as a matter of national interest, the effect of the publication of the white paper upon countries other than China, whom we hope to bolster as effective instruments in the prevention of further spread of communism in the Far East. This applies particularly to the countries of Southeast Asia. I believe the effect of the white paper upon such countries would be one of general discouragement, that we are now in effect "washing our hands" of our Far Eastern efforts. This might be coupled with the fear that we will measure the efficiency of their government (by the American standards) as a prerequisite to any moral or material aid from the United States for the suppression of communism. With this in mind, I believe it most desirable that the white paper be accompanied by a general statement by the Secretary to the effect that this Government is keenly aware of the dangers inherent in the further spread of communism in the Far East and will take such measures as are available to support those who are willing to help themselves in the effort to stop the move of communism in the Far East. This would of necessity have to be a general statement and would have to be very carefully phrased to prevent involving us immediately in the question of support for a possible future Pacific Pact.⁴³ Nevertheless, I feel much good can be done in the Far East and a segment of public reaction in this country could be answered in advance, by some such public statement accompanying the white paper.

(c) *Fairness of the Report.*

I should like to express the fact that in my opinion this report is slanted in favor of the Chinese Communist Party. I believe this to be the case as the written record contains a greater proportion of dealings with the National Government. Consequently, a dominant portion of the white paper is dedicated to relations with the National Government. The paper leaves me with an impression of the equality of the two forces in China, whereas in reality one was an internationally recognized government while the other was an armed dissident political party. Also, in my opinion, it does not place enough stress upon the activities of the Chinese Communist representatives in their field armies and in the Truce Organization set up by General Marshall. Within the field organizations designed to carry out the truce agreements, I would estimate as much as 90 percent of the willful violations and disruptions were caused by representatives of the

⁴³ See also vol. VII, pp. 1 ff., *passim*.

Communist Party. I realize that I may be inclined to give undue weight to this factor as this was the part of the Marshall Mission with which I was connected. I know General Marshall, who saw the picture from the Chinese capital, does not agree with the large proportion of blame which I place on the Chinese Communists.

(d) Public Criticism of the White Paper.

I believe publication of the white paper will be followed by a storm of public criticism and recriminations. I believe this would be the case almost regardless of what was contained in the white paper as its publication will provide a focal point at which to direct the emotionally interested, as well as politically inspired opponents of our China policy. This will be balanced by the fact that the administration is willing to lay before the people such a complete and detailed record of its dealings in China. I believe the sincerity of an effort to place before the people all the facts of the case will outweigh the criticism and that it is to the long-run interest of the government to make such an attempt. I believe further that the American people are entitled to know the facts on the China question which has been the subject of so much misinformation.

In summation of the above, I believe the publication of the white paper to be in the national interest. In my opinion, however, it should be withheld until the fall of Canton or some other dramatic evidence of the final disintegration of the Chinese National Government, and should then be accompanied by a statement of our future intentions to oppose the spread of communism in the Far East.

Question 2: *Would the publication of the white paper endanger the safety of American personnel in China?*

I do not believe the contents of the white paper are such as to create conditions in China which would endanger the safety of American personnel in that country. While it undoubtedly would be preferable, for other reasons, to have Ambassador Stuart absent from the country at the time of its publication, I do not consider that either side would be incited to the point of physical violence against him.

026 China/7-2549

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] July 25, 1949.

CHINA WHITE PAPER

I informed the President of the nature of the doubts which the Joint Chiefs of Staff and Secretary Johnson had raised and as to

the policy question of publishing the White Paper. I told the President that the papers from the NME would be put before him when the final decision had to be made on publication.

The President believes that it is necessary and desirable to bring out the White Paper. We will consider the timing of it in connection with Ambassador Stuart's exit permit.

026 China/7-2149

The Secretary of State to the Secretary of Defense (Johnson)

WASHINGTON, July 26, 1949.

DEAR MR. SECRETARY: I have received your letter of July 21 regarding the China White Paper. I should like to reply to the various specific points which you raise.

In the first place, the Paper would be published as an official document of the Government of the United States prepared under the authority of the President. It would bear the imprint of the Department of State as the agency of the Government charged by the President with its production.

With regard to the problem of security, we have readily concurred with your recommendation based on the views of the Joint Chiefs of Staff that this matter should be considered by the United States Communications Intelligence Board in order to avoid entirely or reduce to an absolute minimum the risks involved. I greatly appreciate the cooperation which you are giving in expediting the work of the Board.

As to whether it serves the national interest to publish the Paper at this time, I wish to point out that over an extended period of time the President and Secretary Marshall were torn between the pressing necessity for informing the Congress and the American people concerning the facts bearing upon our relations with China and their reluctance to take any steps which would add to the difficulties of the Chinese Government. When it became my responsibility to participate in a decision concerning the choice between these two alternatives, I gave the matter the most careful consideration. As a result, I have reached the conclusion and I have recommended to the President that the time has now come when a complete survey of our entire policy in the Far East must be made and that it cannot be made and put into effect unless the Congress and the American people know the facts which unfortunately have in the general interest had to be withheld for so long a time. I recognize fully that the situation is a most difficult one, and I have weighed carefully the considerations which you and the Joint Chiefs of Staff have presented. As I am stating in my Letter of Transmittal to the President: "The inherent strength of our

system is the responsiveness of the Government to an informed and critical public opinion. It is precisely this informed and critical public opinion which totalitarian governments, whether Rightist or Communist, cannot endure and do not tolerate." I am also stating in this Letter that I have not felt that publication at this time could be withheld because a truthful record involves the revelation of a distressing situation in a country for which the people and the Government of the United States have long had a most friendly and sympathetic feeling.

I recognize, as you state in your letter, that the responsibility for publication is mine, but I shall not fail to make your views known to the President.

Sincerely yours,

DEAN ACHESON

893.00/7-2749

The Secretary of Defense (Johnson) to the Secretary of State

WASHINGTON, 27 July 1949.

DEAR Mr. Secretary: In connection with my letter of July 21, 1949, and the views of the Joint Chiefs of Staff which were enclosed on the subject of the "China White Paper", I have just received a memorandum from the United States Communications Intelligence Board which states that the Board is of the opinion that publication of the draft of the "China White Paper" which was reviewed by the Board will not compromise the cryptographic security of the United States. Information has also been received from the Departments of Army and Navy of the declassification of relevant documents under their cognizance. The recommendation contained in the memorandum of the Joint Chiefs of Staff and my letter with respect to the protection of security of documents has therefore been satisfied.

With respect to the other points we raised with you concerning the advisability of publishing the Paper, I still believe that you should most carefully consider whether or not publication of the "China White Paper" at this time will do more harm than good.

Sincerely yours,

LOUIS JOHNSON

026 China/7-2849 : Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, July 28, 1949—2 p. m.

[Received July 28—12: 41 p. m.]

324. Because of past cases where Chinese Government agents have caused "popular" demonstrations against foreigners in official disfavor, request maximum advance notice release date of White Paper.

Sent Department, repeated Canton 136.

MACDONALD

.026 China/7-2049

Memorandum by the Secretary of State to President Truman

[WASHINGTON,] July 29, 1949.

Subject: China White Paper

1. *Present Status of Preparation*

Final revisions and corrections have been made and all revised copy has gone to the Government Printing Office. Advance unbound copies of the entire book are to be delivered at noon today.

2. *Checks and clearances*

The entire document, partly in galley proof and partly in type-script, was submitted to the National Military Establishment on July 15. Secretary Johnson transmitted the views of the Joint Chiefs of Staff on July 21.

The question of security was referred with the entire document to the United States Communications Intelligence Board which reported to the Secretary of Defense on July 25 that they were satisfied that publication of the document would not compromise the cryptographic security of the United States.

In regard to the declassification of certain documents transmitted through military channels or secured from the National Military Establishment files, clearance was secured from General Wedemeyer.

Revised galley proofs were carefully checked by officers of the Department of State and various individual officers of the Department especially assigned to this task.

3. *Review of Basic Question of Policy in Regard to the Publication of the Paper*

In the light of various doubts and criticisms which came to the attention of the Department and in view particularly of the general considerations set forth on behalf of the National Military Establishment by the Joint Chiefs of Staff and Secretary Johnson,⁴⁴ the basic policy question of the desirability of publication has been thoroughly considered and reviewed. In the light of these comments and this reconsideration, the final decision regarding publication is referred to you with my recommendation that the decision to publish should be reaffirmed.

The Joint Chiefs of Staff reported to the Secretary of Defense that the decision as between publication and nonpublication was beyond their cognizance but they felt it incumbent upon them to report their

⁴⁴ Attached to this memorandum were the two letters dated July 21 from the Secretary of Defense and the reply dated July 26, pp. 1377, 1382, and 1386, respectively.

views to the Secretary of Defense. The points to which they called attention as requiring careful consideration are the following:

(a) The possibility that publication would decrease or postpone the possibility of containing or reversing the Communist trend in China.

(b) The risk that publication would incur the "deep and lasting resentment" of the Generalissimo and the National Government.

(c) The inference that, because of the necessarily greater emphasis on the National Government, the United States might seem to display some favor toward the Chinese Communists.

(d) The possibility that publication might cause public disinclination to support any future Chinese assistance if it subsequently should be decided that additional assistance should be undertaken. This point is stated merely in terms of the risk of jeopardizing the flexibility of the United States Government.

(e) The possibility that the statements contained in the Letter of Transmittal might restrict the flexibility of the United States Government in determining future policy in the Far East and might influence or restrict in advance the National Security Council's consideration of this question.

The foregoing considerations are all ones which were in mind when the question of the publication of the White Paper was originally considered. Nevertheless, they have again been restudied. It is impossible to deny that there are certain risks involved in the publication of such a document. On the other hand, the basic necessity of informing Congressional and public opinion regarding the facts in order that future policy may be made on the basis of realism and comprehension of the situation is believed to outweigh the risks involved. It must be anticipated that the publication of the Paper will cause a renewed storm of attack from certain quarters and that it will probably have a depressing effect on the Chinese National Government. It is not possible to estimate exactly whether in the long run it will stimulate those changes in the organization and attitude of the non-Communist Chinese which are essential to their becoming an effective ally in our struggle to contain Communist in Asia.

Consideration has also been given to the fact that both members of Congress and the public are aware that the Paper is being prepared and that a decision not to publish would be the basis for other attacks. In the hearings before the House Committee on Foreign Affairs on July 28, members of the Committee urged that the document be made available to them as soon as possible. The consideration of this element, however, has not been allowed to outweigh the more basic factors indicated by the National Military Establishment.

4. *Time of Release*

If you now determine that the White Paper should be published,

the time of publication would be determined by me in accordance with the following schedule and factors:

(a) The document will not be released until Ambassador Stuart is out of China.

(b) While there are plausible arguments for timing the date of publication with the anticipated fall of Canton, it is believed that no exact correlation with events in China is necessary. On the other hand, the lapse of some additional time is likely to bring out the situation in China more clearly and to reduce the force of the possible argument that the publication has had some effect upon the defense of Canton.

(c) The volume will be ready for distribution by Monday, August 1 but can be kept secret for a period of time thereafter.

(d) From the point of view of distribution both in this country and abroad and from the point of view of briefing committees of the Congress and making the necessary statements to the press, it seems desirable to schedule release of the document either late in the week of August 1 or early in the following week. Drafts of statements which might be made to the press by you and by me in our press conferences would be submitted to you on Monday, August 1.

Preparations for the presentation of the Paper to the Committees of the Senate and House and materials for the briefing of the press are now in course of final preparation and will be available by the middle of next week.

In light of the foregoing I recommend that, subject to your decision as to publication, the exact timing of the public release be left to my discretion.

026 China/7-2949

*Memorandum by the Secretary of State of a Conversation With
President Truman*

[WASHINGTON,] July 29, 1949.

CHINESE WHITE PAPER

I left with the President the memorandum on the China White Paper,⁴⁵ first of all going through with him the various questions to ask whether he wished to decide them now or later.

The President decided the White Paper would be released and it should be released as soon as possible. He will be given a copy to read over the weekend. He and I thought tentatively that probably the very last part of next week would be the best time. Statements by him and

⁴⁵ *Supra.*

me will be given to him on Monday, and he will tell us then the exact date, so that we can go ahead with sending out copies, etc., etc.

[DEAN ACHESON]

026 China/8-149 : Circular telegram

The Secretary of State to Certain Diplomatic and Consular Officers ⁴⁶

WASHINGTON, August 1, 1949—noon.

Dept is issuing for publication August 5 1500 hours Gmt ⁴⁷ White Paper on China covering Sin[o]-US relations in some detail during past five years. Text Letter of Transmittal being addressed by SecState to Pres despatched to you air pouch July 30 and will be transmitted in wireless bulletin August 4. Full text White Paper being forwarded by air about August 2. Special guidance for public affairs officers also being pouched. Length Letter of Transmittal and Paper precludes sending summary by tel.

For your info Paper is very frank picture Sin-US relations during period covered. Letter Transmittal provides summary of high points and interpretation US policy during period but does not except in broadest terms deal with future policy toward Far East. Further suggestions re future steps will probably be included in press statements by Pres and Sec which will also be covered by wireless bulletin.

VOA and WB ⁴⁸ will report fully analyses of and developments re White Paper. Request field report local reaction with suggestions re publicity.

ACHESON

026 China/8-349

The Secretary of State to the Secretary of Defense (Johnson)

WASHINGTON, August 3, 1949.

DEAR MR. SECRETARY: In accordance with the statement in my letter to you of July 26, I brought to the attention of the President the views which you and the Joint Chiefs of Staff had formulated on the question of the desirability of publishing at this time the so-called China White Paper. The President, after carefully reconsidering the matter, decided that the Paper should be published, and it will accordingly be issued as of 11:00 AM Friday, August 5.

⁴⁶ Sent to 51 diplomatic missions and to 12 consular posts.

⁴⁷ Greenwich mean time.

⁴⁸ Voice of America and Weekly Bulletin.

The first advanced copies are available for distribution today, and I am accordingly enclosing a copy herewith.

Sincerely yours,

DEAN ACHESON

Editorial Note

The China White Paper was released by the Department at 12 noon, August 5, as Department of State Publication 3573, entitled *United States Relations With China, With Special Reference to the Period 1944-1949*. The Letter of Transmittal dated July 30 from the Secretary of State to President Truman was reprinted as Department of State Publication 3608, entitled *A Summary of American-Chinese Relations*.

For statement by President Truman on the China White Paper, released to the press by the White House on August 4, see Department of State *Bulletin*, August 15, 1949, page 237. The statement issued by the Secretary of State (Press Release No. 604, August 5) is printed in Department of State *Bulletin*, August 15, 1949, page 236. (The Press Release was entitled "Statement by Secretary of State Acheson on the China White Paper"; the *Bulletin* statement was entitled "Basic Principles of U.S. Policy Toward the Far East".)

026 China/8-849: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 8, 1949.

[Received August 12—7:27 a. m.]

360. Governor Chen Cheng⁴⁹ addressing agricultural meeting August 6 declared publication of White Paper should in no way dampen hearts of Chinese in resisting Communists. Instead, it should be a blessing to Chinese people. In past, people have been relying too much on support for agricultural help from US. This has created subconsciously in minds and in attitude deep spirit of dependence, which is subjecting nation to status of semi-colony. Publication of White Paper should banish from hearts forever such illusion and false hopes. From now on, we should be on our own entirely and self help is the best help.

Repeated Canton 164.

MACDONALD

⁴⁹ Governor of Taiwan.

893.00/8-1049 : Telegram

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

CANTON, August 10, 1949—2 p. m.
 [Received August 13—6 : 12 a. m.]

Cantel 918. Li Tsung-jen⁵⁰ entertained me last evening at delightful informal dinner and despite White Paper he gave impression of being most friendly and cordial. He, as others with whom I have talked, seem to agree with Han Li-wu, Minister Education, who said he realized necessity publication and "the sooner we stopped talking about it and get on with our job, the better". Li was somewhat perturbed over publication his letter to President,⁵¹ but admitted he had written only truth and said that in fact Generalissimo had agreed with him when he saw Generalissimo on Taiwan that present ills were due to past failures of government.

Li still desperately hopes for US military aid, yet admits that "fundamental" problem is Chinese and must be solved by Chinese. He agreed also that battle was for mind Chinese people and could not be won by bullets alone. Reform was necessary, he said, and would be carried out. Also psychological warfare would be improved.

It is firm policy of Government to harass Communists by blockade, by air raids and by continued armed resistance, even as guerrillas if necessary, in effort make their problems more difficult, hoping they will prove insoluble with result that disillusionment among Chinese people, revulsion of feeling, and eventual revolt will ensue. Li realizes we can only give aid where we are convinced that to do so has possibility being effective, yet he desperately hopes our aid will not come "too little or too late".

Sent Department Cantel 918, repeated Nanking 604, Shanghai 487, Taipei 108.

CLARK

026 China/8-1249 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 12, 1949—9 p. m.
 [Received August 12—7 : 34 a. m.]

3208. Reference Contel 3207, August 12⁵² re Shanghai press coverage Chinese White Paper. Believe probable local Commie authorities

⁵⁰ Acting President of China since January 21.

⁵¹ Dated May 5, *United States Relations With China*, p. 409; see also *ante*, p. 699.

⁵² Not printed.

may discuss Acheson's letter of transmittal and summaries of parts of White Paper at regular policy meeting today.

ConGen heard indirectly certain Commie quarters felt press releases indicated American recognition of Chinese Commie regime long way off and discouraged possibility economic help to Shanghai.

Non-Chinese observers expressed belief that Acheson reference resistance Chinese Commie aggression in neighboring countries might mean aid to British in event attack on Hong Kong.

Sent Department 3208, repeated Nanking, OffEmb Canton unnumbered.

McCONAUGHY

026 China/8-1349 : Telegram

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

CANTON, August 13, 1949.

[Received August 14—9:26 p. m.]

Cantel 935. Summary of Chinese Government official statement on White Paper due for release here probably August 14, given us today by Cheng Szu-yuan, Deputy Secretary Kmt⁵³ Supreme Policy Committee. Copy of statement in hand, Cheng gave gist as follows:

Chinese Government realizes White Paper only a record and in this record Chinese Government grateful for past US aid and support always mindful long Sino-American friendship. China's present distress due in part to 8 years' war resistance, but another large part due (1) Yalta Agreement which gave Manchuria to Russia at China's expense, and (2) US mistaken view of CCP⁵⁴ as agrarian reform group. US has finally come around to realizing, as China did long ago, that CCP is dictatorial party and part of international aggressive movement directed by Russia. China needs aid of US and all other democratic peace-loving countries, but, aided or not, free China will fight Communists to bitter end.

After summary, Cheng rightfully remarked statement very mild. We could say it contains nothing unexpected. Statement, which must still undergo final grammatical polish, was approved at fourth regular meeting SPC⁵⁵ today and is combination Foreign Office and SPC efforts.

Sent Department Cantel 934, repeated Taipei 11.

CLARK

⁵³ Kuomintang (Nationalist Party).

⁵⁴ Chinese Communist Party.

⁵⁵ Supreme Policy Committee.

026 China/8-1549: Telegram

The Consul General at Taipei (Macdonald) to the Secretary of State

TAIPEI, August 15, 1949—4 p. m.

[Received 9:37 p. m.]

387. Attitude of local Chinese officials has been most cordial and friendly since release of White Paper contrary to our expectation of strong resentment followed by cool treatment on part of Chinese with whom we had friendly and close relations. Several officials called at ConGen last week and talked at length in very friendly-frank manner. K. C. Wu⁵⁶ spent over hour and half talking to Edgar⁵⁷ and me. He said we must have no secrets and I will answer any questions you ask. C. K. Yen⁵⁸ also spent over an hour discussing economic situation.

Yesterday at CAF⁵⁹ cocktail party officials were unusually gracious and friendly including Governon Chen and General Chou Chih-jou⁶⁰ who insisted having picture taken with him several times.

The sincerity of this present attitude is questionable in as much as the desperate hope for American aid is paramount and every effort is being made to influence US favorably. The remark of a Chinese official to the French Consul that "If we receive American aid and get strong again we won't forget the White Paper" perhaps best typifies true Chinese feeling.

Sent Department 387, repeated Canton 184.

MACDONALD.

026 China/8-1649: Telegram

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

CANTON, August 16, 1949—3 p. m.

[Received August 16—12:57 p. m.]

Cantel 959. Chen Li-fu,⁶¹ as might be expected, was vitriolic on White Paper. He complained bitterly that when Marshall was here he saw only Communists and sought only understand Communist points of view, ignoring Kmt elder statesmen. He, Chen, had had only one discussion with Marshall. Yu Yu-jen,⁶² Yu Ta-wei⁶³ and Chu Chia-hua had fared likewise, he said. Ire from reactionary elements in Kmt

⁵⁶ Former Chinese Mayor of Shanghai.⁵⁷ Donald D. Edgar, Consul at Taipei.⁵⁸ Finance commissioner of the Taiwan provincial government.⁵⁹ Chinese Air Force.⁶⁰ Commander in Chief of the Chinese Air Force.⁶¹ Chinese Minister without Portfolio.⁶² President of the Chinese Control Yuan.⁶³ Then Chinese Minister of Communications.

over White Paper is of course to be expected. Word comes to me from Chiang Monlin,⁶⁴ however, who discussed matter with Generalissimo in Taipei and quotes Generalissimo as saying lightly: "I suppose they had to get it out of their system."

CLARK

026 China/8-1649 : Telegram

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

CANTON, August 16, 1949—9 p. m.

[Received August 17—3:19 a. m.]

Cantel 966. Chu Chang-wei, Secretary-General [of] President's office, tells me Chinese response our White Paper should have been made public 2 days ago as it had received final approval by Supreme Policy Committee and by cabinet. At that time, however, Generalissimo [garble] he wanted see draft. Everything was stopped and George Yeh⁶⁵ took draft Taiwan for Generalissimo's perusal. Generalissimo has dictated changes which must have approval Supreme Policy Committee and cabinet before being embodied in White Paper. Chu, who participated in discussion document here, says Kmt diehards such as Chen Li-fu endeavored unsuccessfully obtain strong language in Chinese response and it was probably at their instance Generalissimo intervened. Final consideration document took place this morning, but Chu believes it will retain its original friendly approach problem.

Sent Department, repeated Taipei 129.

CLARK

501.BB/8-1749 : Telegram

The United States Representative at the United Nations (Austin) to the Secretary of State

NEW YORK, August 17, 1949—3:55 p. m.

[Received 5:16 p. m.]

938. 1. Ambassador Tsiang⁶⁶ called this morning at his request . . . [Here follows report on proposed action at meeting of the General Assembly of the United Nations; see section on this subject in volume I.]

6. White Paper. I repeated to Tsiang assurances I had given during his absence to member his delegation immediately prior to publication White Paper that publication should not be taken as any evidence of

⁶⁴ Chairman of Chinese Rehabilitation Affairs Commission.

⁶⁵ Chinese Acting Minister for Foreign Affairs.

⁶⁶ Tingfu F. Tsiang, Chinese representative at the United Nations.

hostility towards him or his delegation or towards China and the Chinese people. Tsiang expressed appreciation and said he had studied White Paper very carefully. He had three observations to make: First, he felt that Yalta had been a mistake. Second, he referred to statement he said President made in form of press release in March, 1948,⁶⁷ stating USG⁶⁸ opposed to coalition with Communists. This had been his Government's position for year or two previously and subject of dispute with USG. Had we taken position against coalition with Communists earlier, many of later difficulties might not have arisen. Third, Tsiang thought Secretary's transmitting letter to President was unfair and unjust complete denunciation of Nationalist Government, not warranted by White Paper itself and annexes. Commenting on last point, observed he felt he could put finger on sources of much Stuart had reported to Department and he thought these reports in many instances were based on "shady and inaccurate" information. He said he himself would not defend everything Nationalist Government had done; he had come to New York as his Government's representative to UN because he had wanted to retire from Government in China and go into active opposition to Government but was persuaded to take this UN post as not being involved in partisan politics at home. He thought it was unfair and unjust, however, to apply to Nationalist Government, as he said in effect Secretary had done in his letter of transmittal, yardstick of accomplishment which might fairly be applied to USG or Canadian Government, for example. Nationalist Government, he said, should be measured in comparison with previous Chinese governments. Judged by Chinese standards it was not nearly as bad as Secretary had indicated.

AUSTIN

026 China/8-1749 : Telegram

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

CANTON, August 17, 1949.

[Received August 17—12:05 p. m.]

Cantel 968. Following statement by Yeh, Acting Minister Foreign Affairs, on White Paper is, we gather, only action contemplated Nationalist Government that respect:

The Chinese Government has read the White Paper on United States relations with China issued by the Department of State of the United States of America. It is a source of satisfaction to note that the American Government has come to share with the Chinese Gov-

⁶⁷ See White House No. 6, March 11, 1948; *Foreign Relations*, 1948, vol. VIII, p. 141.

⁶⁸ U.S. Government.

ernment the two fundamental views which the Chinese Government has consistently maintained, namely, first, the Chinese Communists are thorough Marxists and tools of Moscow, and secondly, the Soviet Union has violated both in letter and spirit the Treaty of Friendship and Alliance between China and the Soviet Union concluded in 1945. At the same time the Chinese Government must declare that it takes serious exception to the views and statements on many other important questions contained in the White Paper. It is not the intention of the Chinese Government to engage in controversy over past issues to the detriment of the traditional friendship between the Chinese and American peoples and the common cause of the democracies. However, the Chinese Government in consideration of its stand and obligations will state more fully at an appropriate time its position and the relevant facts with regard to the various complex subjects dealt with in the voluminous White Paper for the information of the Chinese and American public so as to further the mutual understanding and cordial relations between the two peoples.

Sent Department Cantel 968; repeated Nanking 636, Shanghai 503, Taipei 130.

CLARK

026 China/8-1749: Telegram

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

CANTON, August 17, 1949—6 p. m.
[Received August 17—1:25 p. m.]

Cantel 972. George Yeh, Acting Foreign Minister, called me to Foreign Office to discuss White Paper. He said his announcement, Cantel 968, August 17, is only action contemplated Nationalist Government this time. He had taken position which had prevailed that Chinese response should be friendly and not such as to arouse Chinese public sentiment against US. There had been some who wished violent reaction though majority had agreed with him. He had also been able obtain restraint by Kmt and other party leaders in their public announcements.

Although he did not say so, it appears to me that obviously what has happened is that when draft that had been approved by Cabinet was taken Gimo,⁶⁹ many inaccuracies were discovered because Gimo retains the crucial files in his own possession and would not make them available for revision document. Yeh admitted task had been difficult because certain files were in Taipei and others in possession Gimo. He

⁶⁹ Generalissimo Chiang Kai-shek.

added that he had been surprised at mildness attitude Gimo to our White Paper even after he, Yeh, had summarized its contents.

CLARK

026 China/8-1849 : Telegram

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

CANTON, August 18, 1949—2 p. m.
[Received August 18—12:47 p. m.]

Cantel 981. Generalissimo's sudden desire check over Chinese Government response to White Paper (Cantel 966, repeated Taipei 129, August 16) thoroughly annoyed Li Tsung-jen camp, according to Cheng Szu-yuan. Latter feels this further proof, as if any needed, that Generalissimo insists on being consulted and having his own way on everything, large and small.

Cheng says Foreign Office statement (Cantel 968, repeated Taipei 130, August 17) was written by Generalissimo and Wang-Shih-chieh⁷⁰ with George Yeh acting only as messenger boy. Cheng adds Generalissimo objected to original statement approved by Kmt Supreme Policy Committee (Cantel 935, repeated Taipei 118, August 13) on two grounds: (1) Lacked factual refutation charges made in White Paper; (2) Generalissimo wants to withhold lengthy statement until Congress' opinion regarding China aid crystallized, then suit statement to prevailing US official opinion.

If what Cheng says is true, and provided situation does not change too drastically in meantime, seems quite possible fuller Chinese Government statement will be made "at appropriate time".

Sent Department Cantel 981, repeated Taipei 135.

CLARK

026 China/8-1949 : Telegram

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

NANKING, August 19, 1949—5 p. m.
[Received August 19—11:25 a. m.]

1837. Vehement hostility expressed in first two official CCP commentaries on White Paper, "a confession that could not be helped" and "prepare for struggle", is not surprising. While articles are perhaps more vituperative and their tone less impersonal than usual Communist tirades against USA, it was to be expected that Communist reaction to White Paper would be violent. We detect extreme

⁷⁰ Former Chinese Minister for Foreign Affairs.

sensitivity in commentary to White Paper description of CCP as Moscow stooges. CCP is obviously also considerably on defensive in two replies, particularly second, in its appeal to forces of democratic liberalism. On this point it is interesting to note CCP admission of strong attraction which USA and American way of life continues to have for Chinese moderate and conservative intellectuals.

Sent Department 1837, repeated Canton 780, Shanghai 1170, Moscow 58.

JONES

026 China/8-2049: Telegram

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

NANKING, August 20, 1949—5 p. m.

[Received August 21—1:59 a. m.]

1845. Third major *Hsin Hua* commentary on White Paper released August 20 entitled "Bye Bye, Leighton Stuart" is primarily continuation of argument of second commentary (see Embtel 1837, August 19 to Department, repeated Canton 780, Shanghai 1005) for benefit of intellectuals and democratic elements still suspected being friendly USA. It differs from previous commentaries only in sinking to new low in lampooning, personal defamation great friend of China. This may reflect some degree of pique that Ambassador Stuart left Communist China without making anticipated approach to highest CCP authorities with suggestions realignment US policy. Latest comment emphasizes somewhat more than earlier articles necessity for Communist China to get along without economic goodwill of USA regardless of suffering which may result.

Sent Department, repeated OffEmb Canton 783, Shanghai 1019.

JONES

761.93/8-2349

*Statement for the Press by Dr. Kan Chieh-hou, Personal Representative of Acting President Li Tsung-jen*⁷¹

As the personal representative of Acting President Li Tsung-jen, I feel it necessary to correct a misunderstanding regarding President Li's foreign policy as related in the State Department's White Paper on U.S. Relations with China.

⁷¹ Copy transmitted to the Secretary of State by Dr. Kan in his letter of August 23, not printed; statement released for morning papers of August 24.

In that section of the White Paper entitled, "The Position and Policies of Acting President Li," on page 293, the following statement is made:

"On January 23 (1949), a representative of the Acting President called on Ambassador Stuart to request a public statement of support from the United States. This representative said that General Li had been in touch with the Soviet Embassy and had worked out a tentative three-point draft agreement between China and the Soviet Union which the (Soviet) Ambassador⁷² had taken with him to Moscow a few days earlier. The three points were: (1) strict Chinese neutrality in any future international conflict; (2) the elimination of American influence to as great an extent as possible in China; (3) the establishment of a basis of real cooperation between China and Russia. General Li had agreed to these three points in principle and felt that his hand would be strengthened in negotiating on them if he had a statement of American support. . . ." ⁷³

I am compelled to point out, at the outset, that if the three conditions laid down by the Soviet Union had already been agreed to, there would have been no need to appeal to the American government for a statement of support to strengthen the Chinese hand "in negotiating on them." Furthermore, if Acting President Li had actually intended to eliminate American influence from China, he would not have kept the American Ambassador informed of such negotiations. The very fact of asking for a statement of support from the United States demonstrates his recognition of the importance of American influence in China.

In order to clarify this misunderstanding, I will herewith narrate the background data relating to all these negotiations.

Efforts aimed at an agreement under which the Soviet government would exercise its influence to halt Chinese Communists in their territorial expansion, were begun by Generalissimo Chiang Kai-shek in 1945. At the end of that year the Generalissimo's son, who was then in Moscow, was told by Stalin that, before he could give his support to the Chinese government, a treaty of neutrality must be concluded between China and the Soviet Union, and a coalition government must be formed in China with the participation of the Chinese Communists. The Chinese government did not accept those terms.

The following year—1946—Generalissimo Chiang made it known to the Soviet Ambassador in Nanking that he was ready to reconsider the Stalin proposals and, when Stalin instructed the Soviet Ambassador to invite him to visit Moscow, he told the Soviet Ambassador that he was unable to make the trip. Stalin was so furious that he gave instructions

⁷² N. V. Roschin.

⁷³ Omission indicated in the source text.

to all the Soviet diplomatic and consular officers in China to adopt a policy of non-cooperation in their relations with the Chinese government.

The foregoing information was laid before me by the Soviet ambassador to China when, immediately upon General Li's accession to the presidency, I was instructed to sound out the Soviet Union on prospects of exercising its influence to get the Chinese Communists to agree to a reasonable settlement under which they would halt their southward drive.

It became altogether clear from the conversations that what the Soviet Union had really wanted in the past three years was a guarantee that China would remain neutral in case Russia became involved in any way. It was equally clear that, following failure in obtaining a neutrality agreement from the Chinese government, the Russians gave a go-ahead signal to the Chinese Communists with the hope that a Communist controlled China would give them this guarantee.

Faced with the alternatives of continued Communist aggression or a neutrality treaty, Acting President Li ordered me to discuss with the American Ambassador, Dr. Leighton Stuart, the matter of offering the Soviet Union a neutrality treaty on condition that the Communist aggression be halted. I saw Dr. Leighton Stuart⁷⁴ and also the military and naval attachés of the American Embassy. In view of no possibility of immediate aid from the United States and the need of time for reorganizing our armed forces after our setback around Hsuechow, they had no objection to this policy of delaying the Communist offensive.

I then proceeded to take the matter up with the Soviet ambassador. With the repeated military success of the Chinese Communists, the Soviet price had been raised. He would not be satisfied with a treaty of neutrality. He insisted on the establishment of a basis of real cooperation between China and Russia. As an evidence of sincerity, he proposed that the Chinese government eliminate American influence to as great an extent as possible in China.

I protested that China could not give up her traditional friendship with the United States and that we needed such material aid and technical assistance to develop our industries and natural resources as the Soviet Union would never be able to give. He bluntly replied that further negotiation was conditioned on the acceptance of this proposal.

It was at this point that Acting President Li sent me to the American Ambassador to ask for a statement of support⁷⁵ to strengthen our

⁷⁴ See telegram No. 197, January 23, 11 a. m., from the Ambassador in China, vol. VIII, "Political and military situation in China", chapter II.

⁷⁵ See telegram No. 768, April 15, 11 a. m., from the Ambassador in China, vol. VIII, *ibid.*, chapter III.

hand in the negotiation with a view to obtaining Russian instruction to the Chinese Communists to come to a reasonable settlement. At no time did Acting President Li agree to the proposed establishment of a basis of real cooperation between China and Russia or the elimination of American influence to as great an extent as possible in China. Nor had the Soviet Ambassador "taken with him to Moscow" any "tentative three-point draft agreement between China and the Soviet Union", as the Soviet Ambassador did not leave China until three or four months after the negotiations had been broken off.

A few days after my conversation with Ambassador Stuart on the subject of a statement of support, the hostile attitude of the Soviet Ambassador towards the Chinese government was so evident that I did not try to see him again. The subsequent removal of the Soviet Embassy from Nanking to Canton put a complete end to this matter.

026 China/8-2549 : Telegram

The Consul at Shanghai (McConaughy) to the Secretary of State

SHANGHAI, August 25, 1949.

[Received August 25—4:48 a. m.]

3440. *Liberation Daily* August 21 printed text addresses by Mayor Chen Yi at final meeting summer study course University and College Faculty Association. Address devoted almost entirely to discussion White Paper. Summary paper reveals ugly face American imperialism in its attempt attain world hegemony and self-appointed role protector of China. American imperialism gave clear-cut order to Chiang Kai-shek launch civil war for slaughter Chinese people; hopes to ferret out of victorious camp of Chinese people the so-called "democratic individualists" to organize them for task of continuing creation of chaos in China and restore American imperialist rule. The "democratic individualists" do exist in New China but not in majority. Question not whether are or are no "democratic individualists" but rather how strengthen vigilance and unite to save such wavering elements from falling victims to American imperialist inducements. Semi-colonial and feudal social structure of China created by imperialism over past hundred years cannot be smashed in few days. Years of education and reform needed. In this connection policy of CCP over years insisting on party discipline should be example to all people's organizations bring their houses in order. White Paper is political call to action, supported by and coordinated on economic front by blockade. Struggle against White Paper must be carried on ideological front but must at same time unite to break blockade. Resources of whole country may be expected come to aid Shanghai. End Summary.

Sidelights of address included criticism local Communist practice calling meetings by issuance invitations to individuals rather than through election of delegates by various groups of the public; mild criticism of groups in Shanghai for timidity in speaking their minds freely and tendency re-echo only views of Communist officials.

Sent Department 3440, repeated Nanking, by mail AmEmbassy Canton August 25.

McCONAUGHY

026 China/8-2549: Airgram

The Consul at Taipei (Edgar) to the Secretary of State

[Extracts]

TAIPEI, August 25, 1949.

[Received September 3—4:22 p. m.]

A-84. K. C. Wu called at this office on August 23 to return the copy of the full text of the White Paper that we had loaned him. He stated that if he was U.S. Secretary of State he would be very proud of the document, but, in his own opinion, it was unbalanced since it made almost no reference to the attitude of the Chinese toward the Mao Communists or to Chinese current reaction to Communist control. I pointed out that the period covered by the Paper ended with the Yangtze campaign and that most unfavorable reaction stories had appeared since then.

He stated that he thought it a very "cute trick" that the only reference to "agrarian reformers" was in a quote from General Hurley.

As to the Canton reply, he said that I could probably see the influence of the Gimo in the final draft and that it was along the lines that he had predicted. I inquired as to what hat the Gimo had worn when he summoned George Yeh to Taiwan with the draft for his personal consideration and revision. KC said that it was Canton that had asked for the Gimo's advice and comment, and not the reverse, that the Canton proposed draft had been querulous and contentious and that the Gimo had prepared the final text to eliminate as much of that as he could. He had objected to the statement about a "later reply at an appropriate time", but that Canton had insisted on its inclusion.

KC then stated that what he wanted to talk about was the future of Taiwan under the White Paper "policy". He said that there were four possible approaches by the American Government: 1) to walk out, 2) to try for trusteeship under UN auspices, 3) to make a forthright takeover, and 4) to support the Government here to help keep it from Commie hands.

The first possibility he stated was out of the question for reasons of strategy and public opinion.

The second would encounter vetos by both the USSR and China in the Security Council before it could be placed with the Trusteeship Council.

The third would result in the killing of Chinese by Americans and of Americans by Chinese.

Therefore, he said, the fourth was the only alternative.

In an attempted rebuttal of my argument that it would be somewhat contradictory for the United States, after the issuance of the White Paper, to further aid the Gimo and his discredited Kmt in Taiwan, Wu replied, as he has so often of late, that the Gimo is a changed man intent on reforms and that all of the discredited followers were gradually being sloughed off. I said that some of the Gimo's recent appointments, decisions, and interferences in affairs of state gave no indication to the outside world that there had been any change whatsoever in his personal approach to problems, to which Wu replied that the West always wanted something dramatic whereas in China history was made gradually; there was no excuse for us wilfully to create a stumbling block, in the person of the Gimo, in our strategic path, and he again raised the question as to what I thought the United States would do about Taiwan. I replied that the Chinese always wanted to know what the United States was going to do, whereas I thought that right now it was more important to know what the Chinese were going to do, and that this office was as always prepared to transmit to Washington any ideas or proposals.

Wu claimed that the United States should come across with further aid to save Taiwan and that at the same time it should insist on certain specific reforms that must be taken. This we should have done at the time of the Marshall Mission and that our failure to take that stance had resulted in the present dilemma. I expressed the opinion that that would be placing us in the position of interventionists while relieving the Chinese of taking any initiative, or even responsibility for the end result. I said I doubted the acceptability of such a proposal.

As though he felt that he could gain acceptance by constant drumming, Wu closed on the theme that the Gimo was a changed man, that he would do nothing dramatic to prove it; but that a close study of developments would prove it; that he was constantly making necessary reforms and plans for more reforms; and that when Canton falls we will look at the picture as it has by then developed in an entirely new light.

In reply to my inquiry of whether there was any possibility that the Gimo might step out of the picture and retire to Baguio or Sun Moon Lake or Kweilin and leave matters in younger and more popular hands, he gave a decisive no, with the follow-up that there is no one to replace him.

EDGAR

026 China/8-2649 : Telegram

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

PEIPING, August 26, 1949—11 a. m.

[Received August 26—4:21 a. m.]

1426. To date Chinese public has been given only violent attacks on White Paper with quotations torn from context. Even "reference material" circulated within party and in certain university circles reputedly inadequate. Desire noted some Chinese circles for complete text White Paper to read US Government story without omissions of Communist editing. Request Department mail Peiping via Hong Kong six copies separately wrapped.

CLUBB

026 China/9-349 : Telegram

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

Moscow, September 3, 1949—6 p. m.

[Received September 3—3:16 p. m.]

2221. Depcirtel August 1, noon. Only available Soviet reaction so far to White Paper on China has been *Pravda* article August 11 reported Embtel 2013, August 11 and Embdes 472, August 15.⁷⁶ To date Soviet comments refer only to Secretary of State's letter of transmission although White Paper is described as "1054 pages of absolute ignominy".

Embassy sees little advantage to US in publicizing White Paper in USSR through VOA. On the other hand, careful study of White Paper probably would reveal isolated items which might be plugged strongly by VOA when opportunities offer. For instance, reports of interviews between Stalin, Molotov, Hurley and Hopkins⁷⁷ show marked contrast between what Soviets said in 1945 and their present attitude regarding China. Such material available *inter alia* on pages 94-96, 113-126. For instance, Stalin describes Chiang as "only Chinese

⁷⁶ Neither printed.

⁷⁷ Harry L. Hopkins, Special Assistant to President Roosevelt.

leader qualified undertake unification of China" (page 115). Chiang also was called by Stalin "selfless" and "a patriot" (page 95).

KIRK

026 China/9-649 : Telegram

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

NANKING, September 6, 1949—5 p. m.

[Received 10:06 p. m.]

2009. Chou Yu-kang (formerly co-worker [of] Carson Chang⁷⁸ and well-known to Ambassador Stuart) informed Embassy officer that in his opinion reference to democratic individualism in transmitting letter to White Paper had resulted in severe weakening of position of third party, non-Communist elements in Communist China. He asserted that although such groups never expected to exert decisive influence on CCP policy they had hoped to act as slightly moderating influence on extreme pro-Soviet and other tendencies within CCP. He said White Paper now being used as weapon to weaken and neutralize third party elements through charges that they may be receiving or will seek US aid. This situation, Chou asserted, had forced people like Liu Chih-wei and Chang Tung-sun to make statements condemning White Paper in order clear themselves of suspicion.

Obvious comment is that so-called democratic parties and personages now have foreign excuse for their political impotency.

Sent Department 2009, repeated Shanghai 1090.

JONES

893.00/9-1449

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

No. 129

PEIPING, September 14, 1949.

[Received November 21]

The Consul General has the honor to refer to his telegram No. 1429 of August 27⁷⁹ and to transmit herewith a copy (in translation) of an article as published in the *Kuang Ming Jih Pao* (Brilliant Daily, Peiping) of August 24, 1949, containing the text of a condemnatory statement issued by the China Democratic League in regard to the White Paper. The statement declares that the White Paper is merely an attempt to conceal the American Government's present plans for

⁷⁸ Leader of the Chinese Democratic Socialist Party.

⁷⁹ Not printed.

further aggression toward China and endeavors to refute the principal arguments of the White Paper.

Summary of Article:

The fact that the White Paper's principal aim is to conceal the Truman Government's further aggressive designs toward China can best be proved by reference to the points raised by the statement itself.

The White Paper attempts to substantiate its claim regarding the long history of Sino-American friendship by referring to such examples of American magnanimity toward China as the "Open Door Policy," "Most Favored Nation Clause," etcetera. In point of fact, these were little more than attempts on the part of the United States to compensate for its late start in the imperialistic struggle for colonies and to convert China into a colony of its own. During the past five years American encroachment upon China has become intensified. President Truman, the representative of the American capitalistic class, believes that in order to oppose the Soviet Union and Communism, he must control China in the Pacific. The White Paper's descriptions of the Hurley, Marshall and Wedemeyer missions to China themselves constitute the most convincing proof that America's sole aim has been to convert China into an anti-Soviet, anti-Communist base of attack.

Of especial note is the White Paper's passage concerning the "three roads confronting the United States when peace came." The first road, that of nonintervention in China, was obviously ill-suited to American plans; the second, that of large-scale military intervention, was not followed merely because of the American Government's certain knowledge that it would not enjoy the support of the American people; while the third road, the road leading to coalition government in China, was even more hypocritical than the second in that it would in time ensure Kuomintang control of all China. Both General Marshall's efforts to assist the Kuomintang and General Wedemeyer's recommendation regarding trusteeship for the Northeast, not to mention the vast amounts of money and military supplies afforded the Kmt Government, evince American imperialistic designs against China. The White Paper's omission of any reference to the facts that General Marshall and Ambassador Stuart in practice supported Chiang in preventing the Communist Party from joining the Government, in unilaterally convening the National Assembly and in tearing up the resolutions of the old PPC [PCC⁸⁰] attest to the deceptive nature of "mediation." American imperialism now must adopt one of the three policies: to

⁸⁰ Political Consultative Conference, January 1946; *United States Relations With China*, p. 610.

create internal chaos in China, to support the Kmt in its spoilage of the Chinese people, or to undertake direct action against China.

The true meaning of Secretary Acheson's letter encouraging "democratic individualists" is that America is now seeking new pawns who will carry out American imperialistic dictates in China. Genuine democratic individualists, however, will rally to the support of New China. Again, such terms as "a regime serving the interests of a foreign country", serve only to insult China's best friend and to enrage the Chinese people. As Chairman Mao has indicated, only one path lies before China, and that is to stand on the side of the Soviet Union.

The American people should recall their own revolutionary origins when criticizing revolutionary New China. They should realize that a "Pacific Union" and collaboration with Japan repeats the old fascist pattern in the Pacific. They should know that the Chinese people now have the strength with which to defeat such brutal acts as "economic blockade." We hope that progressive Americans will ally themselves with progressive Chinese in order to oppose the reactionary intrigues of President Truman and Secretary Acheson and to support world peace and progress.

End of Summary.

This statement contains little that is new to those who have followed recent publicity on the subject; but it categorically defines the Democratic League's political position.

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I N D E X

INDEX

- Abbey, Glenn Allan, 69-70
 Abbott, George M., 63-65, 86, 227-228
 Acheson, Dean G. :
 Blockade of Chinese Communist-controlled ports by the Chinese Government, 1098-1105, 1107, 1110, 1112-1121, 1126-1190 *passim*
 China White Paper, publication of, 1365-1409 *passim*
 Chinese Communist bypassing of U.S. consular offices, 906-913, 915-917, 919-922, 926-931, 934, 939-940, 943.
 Chinese Communist economic and financial policies, 738, 744, 766, 771, 791, 798, 800-802, 810-811, 814, 970
 Chinese Communist trade policies, 919, 925, 933, 940-941, 944, 946, 948-949, 976
 Chinese Communist trade with Japan, 974, 980-982, 984, 987-988, 990-991, 993-996, 1000
 Chinese Communist trade with the Soviet Union, 934
 Chinese Communist treatment of U.S. consular offices, 913, 926, 930, 954
 Economic and financial aid to the Chinese Government, 606-609, 618-625, 630-655 *passim*, 668-699 *passim*, 705-706, 708, 710-714, 717, 723, 725, 727, 729, 741-785 *passim*, 796, 802, 805, 813
 Economic and financial situation in China, 734-737, 740, 742, 744, 747, 773-774, 782, 787-788, 790, 793-796, 803-804, 814
 Evacuation of Americans from China, 1216-1310 *passim*, 1316-1364 *passim*
 Japanese peace treaty, 695
 Military assistance for the Chinese Government, 479, 483, 485-486, 488-489, 491, 495, 498-500, 502, 506, 513-515, 517, 535, 551, 555-556, 558*n*, 568, 577-578, 581-582, 589-590, 597
 Military situation in China, 476, 502-503, 541, 546, 548, 550, 552-555, 598
 North Atlantic treaty countries, military assistance for, 571
- Acheson, Dean G.—Continued
 Petroleum supplies for Communist China, 1002-1003, 1006-1010, 1012, 1014-1022, 1027, 1029-1030, 1035
 Recognition of Chinese Communists. question of, 11-12, 14-30, 32-33, 35-36, 42-43, 45-55, 61-260 *passim*, 803-804, 807-808
 Sino-Soviet negotiations regarding Sinkiang, 1037, 1039-1044, 1046-1058, 1060-1063
 Soviet-Manchurian trade agreement, 955-957, 959, 961, 967, 969
 Taiwan, U.S. policy toward, 271-345 *passim*, 350-356, 364-391 *passim*, 397-471 *passim*, 697
 Tibet, status of, 1064-1097
 Trade with Communist China, U.S. policy regarding, 826-834, 842-844, 846-847, 852, 854-861, 863-872, 878, 880-890, 893, 896-897, 906, 933-934, 936-938, 941, 943, 945, 950-951, 955, 958, 960-961, 963-964, 969, 973, 983, 985, 992
 U.S. Commission to China, proposed, 510
 U.S. Military grant to Chinese Government (\$125 million), 477-478
 U.S. Naval forces at Tsingtao, withdrawal of, 1191-1200, 1202-1209
 U.S. policy toward China, 485, 491-495, 499, 507-509, 511, 518, 524, 526, 1409
 Ward case, 196
 Acheson, Edward C., 373
 Achilles, Theodore, 512, 515-516, 527
 Adea, Manuel, 211
 Air Force, (U.S.) Department of the, 497
 Aisabek, 1049, 1061
 Alaska Airlines, 1314
 Albania, 11, 22
 Allison, John M., 160*n*, 269-270, 374*n*, 505-506, 1015, 1368-1369
 Almond, Maj. Gen. Edward M., 544
 American Advisory Committee, 1259
 American and Foreign Power Company, 1009
 American Association (Shanghai), 1276-1278, 1282-1283, 1286, 1288, 1293, 1296, 1300, 1304, 1307, 1309, 1342-1343, 1345-1346
 American Bible Society, 1259

- American Chamber of Commerce (Shanghai), 1275, 1281-1283, 1286, 1292-1295, 1298, 1302-1305, 1307, 1309, 1316-1318, 1338-1339, 1350
- American Church Mission, 1259
- American Club (Shanghai), 1259, 1350
- American Commercial Bank, 781
- American Express Company, 1351-1352
- American Jewish Joint Distribution Center, 1363
- American Mail Lines, 917, 929, 1132-1133, 1257
- American President Lines, 907-910, 913, 917, 929, 1101, 1108, 1259, 1276-1278, 1283-1286, 1289, 1291, 1295-1297, 1303, 1305, 1307, 1309, 1311, 1314, 1319-1321, 1324-1325, 1328-1333, 1335-1336, 1341, 1343-1347
- American School (Shanghai), 1259
- Amtrorg Trading Corporation, 831, 947
- Andersen, Meyer & Co., 792, 1254, 1259, 1262, 1350
- Anderson, France, Jr., 86
- Anglo-Iranian Oil Company, 1016-1019, 1028-1030
- Argentina, 258
- Armco Steel Company, 971-973
- Armstrong, Park, 1376
- Armstrong, Willis G., 900
- Army, (U.S.) Department of the: China White Paper, publication of, 1378, 1381-1382, 1387; evacuation of Americans from China, 1219; Far East Air Force team, question of visit to Taiwan, 426-427; Japanese trade with the Chinese Communists, 843; military advisers for Chinese Government, question of, 497, 977-980, 1001; military grant (\$125 million) to the Chinese Government, 477, 512, 581; surplus sales to Chinese Government, 502-503, 528, 597; trade between Taiwan and Japan, 355; trade with Chinese Communists, 844
- Asiatic Petroleum Company, 1034-1035
- Attlee, Clement R., 101, 118, 223, 240
- Austin, Warren R., 103-104, 195, 1396-1397
- Australia (*see also under* Chinese Communists: Recognition question), 360*n*, 432, 726-727, 822
- Bacon, Leonard Lee, 115-116, 162, 174-175, 181-182, 193-194, 1248, 1349, 1361-1362
- Bacon, Ruth E., 258-260, 1065-1071
- Badger, Vice Adm. Oscar C., 265, 414, 430, 448-450, 657, 664-665, 1128, 1132*n*, 1133, 1191-1197, 1200-1206, 1209, 1216-1219, 1233, 1240-1242, 1244-1249, 1251, 1254, 1257, 1297, 1325
- Baeyens, Jacques, 21, 26-27, 45, 47, 49, 132, 136, 164, 194, 213, 236-237
- Bajpai, Sir Girja Shankar, 29, 44-46, 100, 127, 196-197, 210, 215-216, 221, 1082, 1087, 1092
- Baker, John Earl, 617*n*, 619, 661
- Balfour, Guthrie & Company, 950
- Bank of America, 780, 797, 810-812, 1278, 1286, 1346
- Bank of California, 813
- Bank of China (Chinese Government) (*see also under* Chinese Communists), 718, 789, 796-797, 808
- Bank of the Manhattan Company, 803
- Bao Dai, 21, 64, 136, 169, 177, 185, 189-190, 201, 226, 228, 237, 240-241, 251, 592
- Barbour, Walworth, 111, 130-131, 888-889
- Barclay, Roderick E., 88
- Barkeley, Alben W., 485, 506, 614
- Barnett, Robert W., 812, 815-816, 900, 1001*n*, 1031
- Barr, Maj. Gen. David G., 275, 278, 280, 462, 478-483, 491, 495-497, 514-515, 560, 568, 657, 1193, 1378, 1381
- Barrett, Col. David D., 475
- Bartlett, Frederic P., 869, 897, 899, 906
- Baruch, Herman B., 18
- Battle, Lucius D., 29, 1372
- Bay, Charles U., 250-251
- Beam, Jacob D., 229-230, 887
- Behr, Charles, 1312*n*
- Belgium, 102, 164, 230-231, 507, 863-864, 866-870, 873, 879-884, 887, 893-894, 896-906
- Bell, George L., 856
- Bender, Elmer C., 98, 192, 231, 247, 252, 996-999
- Bennett, Josiah W., 1221*n*, 1222, 1223*n*, 1226-1227
- Berkey, Adm. Russel S., 419, 1354
- Berkner, Lloyd V., 528
- Berlin blockade, 975
- Berry, Lampton, 160*n*
- Berthoud, Eric A., 869-870
- Bevin, Ernest: Blockade of Chinese Communist-controlled ports by the Chinese Government, 88-89, 1110-1111, 1147; British policy toward China, 56-57, 88-90; Communist influence in India, 55; economic survey of Southeast Asia, 56; French Indochina, British policy toward, 189-190, 226, 257-258; Indonesian situation, 91; Japanese peace treaty, 695; recognition of Chinese Communists, 2, 20, 50-52, 54, 68-69, 76, 81-85, 88, 90, 97, 103-104, 109-110, 118-120, 123, 128, 132, 134-135, 138-139, 146-147, 150-154, 169-170, 176, 182-183, 189, 191, 193-194, 198-201, 208, 219, 221, 223-226, 236-237, 240-242, 248, 257; Taiwan, British policy toward, 343, 436-437, 443, 589; Tibet, British policy toward, 1084-1086; trade with Communist China,

- Bevin, Ernest—Continued
852, 872, 875, 878-880, 884, 893; visit to Washington, 52-53, 870
- Bhakta, D., 1081
- Bhutan, 9, 1066, 1094-1095
- Bingham, Barry, 510
- Bishop, Max W., 561
- Bissell, Richard M., Jr., 670-671
- Bitting, S. T., 1312*n*
- Blaisdell, Thomas C., Jr., 498-499, 506*n*
- Blake, T. D., 1312*n*
- Bliss, Don C., 187, 866, 896
- Blockade of Chinese Communist-controlled ports by the Chinese Government, 536, 562-563, 585, 874, 891, 895, 949, 951-953, 956, 964, 966, 971, 973, 1015, 1098-1190, 1273, 1279-1280, 1283, 1289-1290, 1292-1293, 1297, 1301, 1305-1306, 1313, 1315-1316, 1318, 1322, 1359, 1361-1363, 1393
- British policy toward, 69, 121, 1018, 1100-1101, 1110-1112, 1114-1116, 1118-1119, 1121-1126, 1130, 1139-1140, 1147-1154, 1156-1161, 1163
- Chinese Communists, effect on, 1106-1110, 1125-1126, 1128-1130, 1262-1264, 1276-1277, 1280, 1283-1284, 1293-1294, 1298-1299, 1301, 1319, 1326, 1334, 1353, 1362-1364
- French policy toward, 89, 874-875, 1115, 1118-1119, 1121, 1334
- Greek position, 1121
- Italian position, 1121
- Portuguese position, 1121
- U.S. policy regarding, 88-89, 1098-1100, 1102-1107, 1112-1114, 1116-1117, 1119-1123, 1132-1136, 1138-1142, 1146, 1152-1153, 1155-1156, 1160-1162, 1164-1165, 1167, 1169, 1171-1173, 1175-1184, 1186-1187, 1189-1190, 1263-1264, 1287, 1290, 1294-1295, 1304, 1319-1320, 1326, 1333-1334, 1339, 1345
- U.S. shipping, interference by Chinese Government Navy with, 1139-1146, 1149, 1152-1153, 1156, 1163-1187, 1189, 1353
- Board of Supplies of the Executive Yuan, 785
- Board of Trustees for Rehabilitation Affairs (BOTRA), 1297, 1351-1352, 1363
- Boardwell, P. H., 1351-1352
- Boehringer, Carl H., 1000-1001
- Bohlen, Charles E., 43
- Bonnet, Henri, 88-89, 96, 236
- Boon, Hendrik N., 199
- Borneo, North, 8
- Bounous, Franco, 99-100
- Bourne, Al, 1281
- Bowles, Francis G., 342
- Bradley, Gen. Omar N., 376-378, 460-461, 463-464, 466-467
- Brandon, Dorothy, 451
- Branning, A. L., 1351-1352, 1363
- Bréal, Michel, 108, 780*n*, 914*n*
- British Commonwealth. *See under* Chinese Communists: Recognition question *and* U.S. export controls, etc.
- British Commonwealth conference at Colombo, 194, 201, 204, 206, 217, 219, 222, 226, 238, 240-241, 249, 255, 258, 442
- Brown, Aaron S., 223*n*
- Brown, Constantine, 504
- Brown, Stephen C., 834-837, 849-851, 950-951, 971-973, 1001*n*, 1004-1006, 1031-1034
- Brown, Willard O., 944
- Bruce, David K. E., 26-27, 132-133, 136, 164, 183, 189-190, 194, 205, 213, 226-227, 236-237, 863, 1115
- Bruce, Howard, 611, 614, 617-618
- Bryner and Company, 909, 987, 991
- Budget, (U.S.) Bureau of the, 317, 602-603, 609
- Bulgaria, 98, 923
- Burhan (Pao Erh-han), 1039, 1041, 1044-1045, 1060, 1063
- Burma (*see also under* Chinese Communists: Recognition question): Effect of Chinese Communist victory on, 5, 9-10, 74, 176, 232, 239, 255, 465, 520, 584, 714, 723-724, 820, 822, 860, 951, 1065; Far Eastern Commission, member of, 360*n*; nationalist movement in, 91; political situation, 166, 178; rice shipments to China, 675; U.S. military assistance, 570, 572-574; U.S. policy toward, 162
- Burnside, Maurice G., 544
- Burton, John W., 19, 32-33, 41, 49, 179-180
- Butler, Robert, 102
- Butterfield and Swire, 909, 913, 916-917, 1101, 1168, 1278, 1288, 1296, 1360
- Butterworth, W. Walton: Blockade of Chinese Communist-controlled ports by the Chinese Government, 89, 1110, 1118-1119, 1122-1123, 1125, 1127; China White Paper, publication of, 1373-1374, 1376; Chinese airlines, question of U.S. economic assistance for, 517-518; Chinese Communist economic and financial policies, 814; Chinese Communist efforts to revive trade with Japan, 998; ECA aid to Chinese Communist areas, cessation of, 823-824; economic and financial aid to the Chinese Government, 601-607, 610-614, 616, 619, 624, 630, 635, 638, 640*n*, 641, 645-649, 651, 667, 701-707, 718, 720-724, 751, 775, 782, 789, 1368; evacuation of Americans from China, 1210-1212, 1273; military assistance to the Chinese Government,

- Butterworth, W. Walton—Continued
 483-485, 490-491, 498-499, 511, 558,
 568-574, 576, 581, 582*n*, 589-594;
 petroleum supplies for Chinese
 Communists and North Korea, ques-
 tion of, 1024-1027; recognition of
 Chinese Communists, question of,
 5-6, 12*n*, 31, 76-78, 81-83, 85, 88, 90,
 103*n*, 108, 120, 149-151, 160*n*, 184-
 188, 199-203, 213-214, 219-220, 224-
 225; Sino-Soviet negotiations regard-
 ing Sinkiang, 1046-1047; Tai-
 wan, U.S. policy regarding, 263*n*,
 279-280, 289, 297, 304, 313, 317-318,
 328-329, 337, 346, 352, 355, 365-368,
 371-373, 388-389, 403, 421, 431, 438,
 442, 456-457, 461-465, 468, 607;
 Tibet, status of, 1076, 1085*n*; U.S.
 naval forces at Tsingtao, with-
 drawal of, 1201-1202, 1204; U.S.
 policy toward China, 511; U.S. trade
 with Communist-occupied China,
 823-826, 841-842, 849-853, 872-874
- Buxton, Martin P., 914*n*
- Byroade, Col. Henry A., 1383-1385
- Cabot, John M.: Blockade of Chinese
 Communist-controlled ports by the
 Chinese Government, 1099, 1101,
 1107-1110, 1112, 1116-1117, 1119;
 Chinese Communist bypassing of
 U.S. consular offices, 906-934 *pas-
 sim*, 939, 951*n*; Chinese Communist
 trade policies, 946-949, 965, 967;
 Chinese Communist trade with
 Japan, 980-981, 987-988, 990; Chi-
 nese Communist trade with Na-
 tionalist China, 925-926; Chinese
 Communist trade with the Soviet
 Union, 934; economic and financial
 aid for the Chinese Government,
 617, 619-621, 623, 637-640, 645, 649-
 651; economic and financial situa-
 tion in China, 734-765 *passim*, 783,
 791-793, 797; evacuation of Ameri-
 cans from China, 1217-1268 *passim*,
 1273, 1293, 1305, 1312-1315, 1317,
 1330; military assistance to the
 Chinese Government, 478, 480; pe-
 troleum supplies for Chinese Com-
 munist, 1002, 1006-1010, 1012-1013,
 1015, 1017, 1019-1020; recognition
 of Chinese Communists, question of,
 14, 66; Taiwan question, 276, 287,
 299, 301, 309, 311, 316-317, 354; U.S.
 export controls against Chinese
 Communists, 933, 936, 938-939, 941-
 942, 983-984; U.S. naval forces at
 Tsingtao, withdrawal of, 1205-1206;
 U.S. trade policy toward Chinese
 Communists, 938, 943, 945-946
- Cabot, Mrs. John M., 1231
- Cadogan, Sir Alexander M. G., 85
- Caffery, Jefferson, 19, 21, 115, 706*n*
- Cairo Conference (1943), 1370
- California Texas Oil Company, 792, 843,
 871, 1002-1003, 1006, 1011-1036
passim, 1281, 1286, 1337-1338, 1351-
 1352
- Callanan, Leo J., 781*n*, 1282, 1348, 1363
- Cammonn, Schuyler, 1079-1080
- Canada (*see also under* Chinese Com-
 munist: Recognition question),
 258, 360*n*, 881, 904, 982
- Cannon, Cavendish, 104
- Carpenter, Gardner E., 148
- Carter, Brig. Gen. Marshal S., 484-486
- Case, Everett, 160*n*, 208, 379*n*, 551*n*, 1312
- Central Air Transport Corporation
 (CATC), 521, 759, 1054
- Central Bank of China, 304, 427, 634,
 675, 718, 730-731, 736-764 *passim*,
 771-803 *passim*, 808, 925, 947, 1108,
 1303
- Central Intelligence Agency (CIA),
 393, 591, 648-649, 1022
- Central Trust of China, 736, 743, 925,
 947, 958, 967, 1015
- Ceylon, 177, 201, 210, 255, 820
- Chang, Carsun, 1407
- Chang Chih-chung, Gen., 1037-1042,
 1044-1049, 1053, 1055-1056, 1059-
 1060
- Chang Chun, 471, 522, 697-698
- Chang Fa-kwei, Gen., 702, 753
- Chang Han-fu, 1342, 1345-1346
- Chang Kia-ngau, 741, 749
- Chang Li-sheng, 443
- Chang Tsung-ping, 944-945, 976-977, 982,
 988-991
- Chang Tung-sun, 1407
- Chapin, Selden, 180, 199, 233-234, 255
- Chase Bank, 745, 775-776, 923, 1259,
 1278, 1286, 1346, 1350, 1352
- Chen, K. P., 749
- Chen Cheng, Gen., 268-269, 272, 278-279,
 283, 289-290, 292, 297-345 *passim*,
 351-352, 354, 356, 364-365, 368-371,
 381, 385, 390-391, 400-434 *passim*,
 441, 443, 445, 448-449, 451, 453, 458,
 484, 664, 720, 753, 1100, 1160, 1176,
 1179-1180, 1336, 1340-1341, 1392,
 1395
- Chen Chi-tang, Gen., 555, 702
- Chen Chih-ping, 451
- Chen Ching-fen, 455
- Chen Fong-chu, 334
- Chen Kuo-fu, 282*n*, 413*n*, 701*n*, 759*n*
- Chen Li-fu, 283*n*, 413*n*, 701*n*, 759*n*, 1395-
 1396
- Chen Ming-shu, 1126
- Chen Ta-ching, Gen., 774*n*, 1244-1245
- Chen Tai-chu, 551*n*, 1041, 1050-1051,
 1053, 1103, 1135-1136, 1148, 1153,
 1308, 1327, 1335-1336, 1344
- Chen Tien-shun, 449
- Chen Yi, 313, 457
- Chen Yi, Gen., 1126, 1337, 1403

- Chen Ying, 1013
 Cheng Cheng-kung (Koxinga), 404
 Cheng Chieh-min (Cheng Kai-ming), 412-414, 580-581
 Cheng Szu-yuan, 1394, 1399
 Chennault, Maj. Gen. Claire L., 383, 517-523, 545, 556, 559
 Chiang Ching-kuo, Gen., 732, 786, 1109
 Chiang Kai-shek, Generalissimo (*see also under Taiwan*):
 Blockade of Chinese Communist-controlled ports, 1103, 1120-1121, 1126, 1306
 Cairo Conference (1943), 1370
 Cairo Declaration (1943), 207n, 343n
 China White Paper, 1373, 1380, 1389, 1393, 1396, 1398-1399, 1404
 Conversations with: President Quirino of the Philippines, 51, 116; Senator H. Alexander Smith, 206
 Economic and financial measures, 662, 718-719, 730-731, 749-750, 760, 783, 785, 796
 Evacuation of Americans from China, 1336
 Military situation in China, 2, 80, 89, 336, 504, 526, 542, 545, 547-549, 553, 555, 560-561, 563, 701-702, 717, 724-725, 1193-1194, 1403
 Political situation in China, 3, 6, 90, 112, 154, 249, 263, 324, 333, 338-339, 369, 396, 413, 481, 494, 517-518, 522-523, 542, 547-548, 553, 560, 562, 580, 592-593, 595, 636-637, 663, 677, 694, 701-705, 707, 713, 719-721, 725, 753-754, 1109n, 1211, 1342, 1393
 Republic of Korea, relations with, 80-81
 Retirement as President of China, 481-482, 618n, 663, 676n, 701, 1103n, 1200n, 1220
 Soviet attitude toward, 1406-1407
 Soviet influence in Sinkiang, 1038
 Soviet Union, negotiations with, 1401
 Stalin, attitude toward, 1407
 United Nations action regarding Manchuria, proposed, 1366
 U.S. economic and financial assistance, 435, 618
 U.S. military assistance, 483, 706, 717, 724
 U.S. naval forces at Tsingtao, withdrawal of, 1193-1194
 U.S. support for, question of, 382, 706
 Visit to the Philippines, 394, 432
 Chiang Kai-shek, Mme., 403, 414, 706
 Chiang Mon-lin, 381, 620, 661, 1396
 Chiang Wei-chuang, 398, 406, 441, 447-449
 Chien, C. F., 386-388
 Chifley, Joseph B., 28
 Chin Ting-chih, 992
 China Aid Act (1948), 304, 478, 488, 505, 508, 513-515, 534, 576, 587, 599-602, 605, 609-610, 612, 614n, 615, 652, 656-657, 660, 664, 671n, 672, 674, 679-681, 684, 688, 698, 706, 717, 977
 China Aid Program, questions regarding continuation of, 298, 329, 413, 420, 606, 613-622, 624, 626, 630, 672-675, 683, 690, 1265
 China Democratic League, 7, 323, 1407-1409
 China National Aviation Corporation (CNAC), 521
 China Petroleum Corporation, 959, 1021, 1032
 China Relief Mission, 621, 638-639, 658, 660
China Weekly Review, 1259
 China White Paper:
 Chiang Kai-shek, reference to and effect on, 1373, 1380, 1389, 1393, 1396, 1398-1399, 1404
 Consultations with British, 51
 Publication of, 368, 1365-1409
 Reactions: British, 249; Chinese Communists, 382, 1393-1394, 1399-1400, 1403-1404, 1406-1409; Chinese Government, 676, 712, 717, 1369, 1373, 1387, 1389, 1392-1399, 1401-1406; French Indochina, 87; Singapore, 76; Soviet Union, 154, 1406-1407; U.S. Congress, 1373-1376, 1389-1390
 Taiwan chapter, 360, 406
 U.S. objectives, 157, 420, 534, 1317
 Wedemeyer Report on China (1947), inclusion of, 1365-1367
 Chinese Air Force (*see also under Taiwan*), bombing of foreign vessels by the, 1111, 1114, 1120
 Chinese Communist Party (*see also Chinese Communists*): Anti-American campaign, 976, 1126; China White Paper, 1399-1400, 1407; economic policies, 975, 1275, 1313, 1403; Japanese peace treaty, interest in, 54; military activities, 1039-1040, 1042; Marshall Mission to China, attitude toward, 1384-1385; Soviet Union, attitude toward, 956-957, 962, 976, 1045, 1055, 1394, 1400; U.S. views regarding, 1394
 Chinese Communists (*see also Chinese Communist Party and under Blockade, etc.*; China White Paper: Reactions; Evacuation of Americans from China; *and Taiwan*):
 Abrogation of treaties with foreign powers, question of, 11, 78, 82, 168, 638, 1109
 Air agreements with, U.S. opposition to, 145, 892, 1299-1300, 1350
 Anti-American attitude, 1273

Chinese Communists—Continued

- Bank of China, 773, 778-779, 783-784, 786, 788, 796-797, 800ⁿ, 801, 810-813, 1303
- Banking regulations, 988
- British policy toward, 181, 837, 874-875, 1115, 1124
- British relief supplies, 1122-1126, 1130, 1273-1274, 1277
- British shipping, incidents involving: *Amethyst*, 181, 326, 536-537, 1241-1242; *HMS London*, 1243-1244, 1246; *MacFarlane*, 181
- British trade policy toward Chinese Communist-occupied China, 817-825, 828, 837-842, 844, 932-933, 938, 941
- Central People's Government, establishment of, 93-96, 101, 116, 121-124, 195
- China Merchants Steam Navigation Company, 909
- China Mutual Trading Company, 986-987, 993
- Chinese Petroleum Corporation, 1016-1017, 1021, 1024-1026, 1028-1031, 1036
- Control over mainland China by, effects of, 6-11
- Economic and financial policies, 738-740, 744, 748, 766-767, 791-793, 798-801, 810-814, 838, 970-971, 1312-1313
- Economic Cooperation Administration:
 - Aid program: Attitude toward, 626, 638, 935, 956; suspension of, 1012-1013
 - Assets and supplies, seizure of, 624-626, 637, 663, 668
- Foreign banks, attitude toward, 739-740, 771, 800-802, 917, 923, 952
- Foreign business and trading interests, policy toward, 5, 50-51, 54, 58-59, 75, 84, 86, 88, 153, 173, 814, 818, 829, 831, 837-840, 847, 862, 891, 913, 917, 928, 931, 938, 983, 1122, 1212, 1262-1264, 1267, 1273, 1275, 1277, 1279-1280, 1313, 1317
- Foreign currencies, regulations demanding surrender of, 765-766, 770, 772-773, 778-779, 781-784, 786-788, 797-799, 806-807, 809-811, 952, 1109
- Foreign trade policies and practices, 748, 800, 812, 818-819, 825, 831, 833-834, 838, 876-877, 906-974, 984, 1124, 1313
- French policy toward, 875
- Gould-Miner case, 1302
- Hong Kong, attitude toward, 818, 820
- Marshall Mission to China, attitude toward, 1384-1385
- North China People's Government, 12, 956

Chinese Communists—Continued

- North China Trading Company, 995
- Northeast Export Company, 995
- People's Consultative Conference, 94, 935
- People's Republic of China, establishment of, 93-94
- Petroleum products for Communist China and North Korea:
 - British position, 840, 866-867, 871, 873, 877, 879, 881, 884, 892-893, 900-902, 954, 1002, 1015-1018, 1031-1032, 1035
 - Indonesian position, 887, 1030
 - Middle East supplies, 939
 - Netherlands position, 840, 866-867, 879, 881-882, 884, 893, 900-902, 905, 1031-1032, 1035
 - Soviet supplies, 931-932, 934, 937, 968, 1008, 1011, 1021, 1026, 1031-1032
 - U.S. policy regarding control over exports of, 825-826, 840, 843, 847-848, 868, 871, 877, 879, 881-882, 884, 892, 905, 921-924, 932, 937, 939, 954, 1002-1036
- Philippines, policy toward, 255, 342
- Protection of Americans and American interests, problems concerning, 539-540, 913, 917-918, 931-932, 1251-1252, 1258-1260, 1266-1268, 1270, 1274-1277, 1280, 1293, 1310, 1318, 1356
- Recognition question:
 - Australian position, 19, 23, 28, 32-33, 35-36, 48-49, 62, 77, 91-92, 142, 145, 147, 155, 164, 179-180, 189, 193, 200-201, 210, 221, 224, 238, 260
 - Belgian position, 102, 164, 230-231
 - British Commonwealth position, 5, 13, 15, 19, 21, 24, 28, 33, 60-61, 71, 74, 138, 150, 152, 193-194, 199-201, 210, 217, 221-222, 226, 238, 243
 - British policy regarding, 1-6, 11-12, 14-17, 19-20, 23, 25-26, 28, 35, 47-48, 51-62, 65-66, 68-70, 76-110 *passim*, 118-119, 123, 379, 1110-1111; *de facto* recognition, 103, 109, 118-121, 124-125, 128, 130-140, 143, 145-148, 821; *de jure* recognition, 149-156, 160, 163-165, 173, 175-177, 181-189, 191, 193-194, 200-254 *passim*, 259-260, 442-443, 463, 815
 - Bulgarian recognition, 98
 - Burma: Policy, 33-34, 37-41, 79-80, 162, 168ⁿ, 169, 197, 210, 212, 214-215, 218, 221, 223; recognition, 223, 227, 243, 246, 248-249, 252-253, 259
 - Canadian position, 18, 23-24, 142-143, 145-146, 155, 191-193, 200-203, 210, 216-217, 221, 240

Chinese Communists—Continued

Recognition question—Continued

- Ceylon: Policy, 201, 210; recognition, 255
- Chinese Government position, 1102, 1105, 1110-1111, 1113, 1118
- Cuban position, 102
- Danish recognition, 235, 250, 252, 259
- Egyptian position, 115
- French position, 5, 16, 19-21, 23-24, 26-29, 43, 45, 47-49, 62, 65-66, 76, 90-91, 96-97, 100, 108-109, 123, 126, 132-133, 136, 163-165, 189-190, 194, 201, 205, 209, 213, 217, 221, 228, 230, 236-237, 240, 251
- Hungarian recognition, 101
- India: Policy, 24, 28-29, 31, 43-46, 55, 70-74, 77, 100-101, 105, 116-117, 123-125, 127-128, 133-134, 138, 143, 147, 155, 162, 164-167, 177-180, 193, 196, 198-201, 210, 212, 215-216, 221-222, 1093, 1097; recognition, 227, 229, 240, 243, 245, 254, 259
- Indonesian position, 69-70, 169, 197, 199, 229-230, 233-234, 245
- Italian position, 17, 23, 99-100, 109, 136, 149, 163-164, 209, 217-218, 221-223, 236
- Mongolian People's Republic, recognition by, 111
- Netherlands position, 18, 23-24, 98-99, 102, 125-126, 131-132, 135-136, 140, 155, 164, 180, 194, 199, 201, 218, 233-234, 243-246
- New Zealand position, 164, 180, 193-194, 200, 204, 210, 221, 224, 260
- North Atlantic treaty powers, position of, 13, 15-17, 19, 21, 24, 26-27, 60-61, 81, 163
- Norwegian recognition, 250-252, 259
- Pakistan position, 45, 112, 164, 193, 201, 210, 221
- Philippine position, 32, 42, 65-66, 70, 115-116, 119, 126-127, 167-169, 211, 223, 229-230, 234-235, 435
- Polish recognition, 97
- Portuguese position, 25-26, 188, 217, 246-247
- Republic of Korea position, 80-81, 144-145, 196-197, 223, 230
- Southeast Asia, attitude of, 71, 77-78, 214
- Soviet Union: Position, 27, 60, 77, 1062; recognition, 94-96, 111, 141, 152, 220, 582-583
- Swedish recognition, 250-259
- Swiss position, 209-210
- Thai position, 62-63, 86, 140-141, 168n, 169, 176, 197-198, 212, 238-239

Chinese Communists—Continued

Recognition question—Continued

- U.S. policy regarding, 6, 11-42 *passim*, 50-54, 61-62, 65-69, 71-72, 81-83, 85, 91-93, 96-97, 100, 103-104, 106-110, 117-119, 121-124, 128-130, 140, 143-144, 154-163, 168-170, 183-184, 189, 196-197, 203, 206-207, 211-214, 216, 219-220, 222-223, 228-233, 243-245, 247, 251-256, 462, 467, 494, 581, 655, 707, 723, 803-804, 807-808, 926, 965, 983, 1230, 1260, 1264, 1294, 1332, 1394
- Vatican policy, 116, 162, 174-175, 203-205, 217
- Yugoslav recognition, 104, 122
- San Yuan-Yung Sheng group, 993-995
- Shipping regulations, 913, 917
- Sino-American treaty of friendship, commerce, and navigation (1946), denunciation of, 231
- Smith-Bender case, 98, 192, 231, 247, 996-999
- Soviet assistance to and influence over, question, 3-4, 35, 37-38, 57, 73, 83, 105, 114, 144, 152-153, 159, 174-175, 202, 215, 225, 227, 232, 466, 493-495, 535, 537, 543, 582-583, 620, 626, 824-825, 827-831, 833-834, 838, 888, 892, 946-947, 955-959, 961-963, 975, 1129, 1265, 1398, 1406
- Soviet-Manchurian trade agreement, 906, 955-963, 967-969, 1026, 1046-1047; Chinese Government protest, 959-960
- Tariffs: Abolition of GATT agreements, 919, 933, 940-941, 943-945, 948-949, 960-961, 988; new regulations, 920, 924, 988
- Trade with Japan: Efforts to revive, 824-825, 827, 829-830, 833-834, 836, 843, 942, 973-977, 980-984, 986-1001; SCAP position, 975-1001; U.S. interest in, 973-1001
- Trade with Nationalist China, 925-926
- U.S. consular offices, bypassing of, 906-910, 915-925, 929-930, 943, 981, 987; U.S. policy regarding, 908, 911-912, 914-915, 926-927, 930-931
- U.S. consular offices, questions regarding utilization of confidential radio communications by, 911-912, 914-917, 919, 926, 978
- U.S. consular offices, treatment of (*see also* U.S. Consulate General at Mukden, etc., *infra*), 14, 23, 98, 508, 847, 891-892, 906, 910-911, 913-915, 918, 922-923, 926, 935-936, 944, 946, 976, 979-982, 1220, 1251

Chinese Communists—Continued

- U.S. consular posts, closure of, 55, 89, 243, 534, 954, 989, 1061, 1063, 1291, 1315
- U.S. Consulate General at Mukden, treatment of staff of the, 98, 102, 104, 111, 117-118, 137, 168, 170, 175, 188-189, 192, 196, 198, 201, 210, 213, 216, 231, 244-245, 247, 249, 251-252, 534, 637, 891, 913-914, 916, 918-919, 923, 931, 935, 938, 976, 978, 981, 984, 987, 989, 996-999, 1217, 1224, 1251, 1355, 1359
- U.S. economic and financial aid in areas controlled by, suspension of, 610-627, 630, 636-640, 642-656, 667, 688, 690, 823-824, 1012-1013
- U.S. export controls for Communist China and North Korea :
 - Anglo-American technical discussions, 856-859, 861-868, 878, 887, 893, 947, 949*n*, 950, 1016*n*
 - British Commonwealth position, 825-826, 848, 879, 881, 884, 894, 899, 905
 - British position, 817, 824-826, 832, 835-837, 840, 843-853, 855, 860-888 *passim*, 893-894, 896-901, 906, 938-939, 941-942, 945, 947, 951, 953, 955, 958, 960, 1023, 1128
 - Canadian position, 881, 904
 - Cooperation by Belgium, France, and the Netherlands, 863-864, 866-870, 873, 879-884, 887, 893-894, 896-906
 - French Indochina position, 863
 - Hong Kong position, 825, 832, 835-836, 843, 845-846, 848-849, 851-852, 854, 861-863, 866-867, 869, 871-872, 875, 879-880, 884-885, 893, 898, 903, 936, 942, 951, 953, 955, 958
 - Indonesian position, 863, 883, 887, 951
 - Macao and Portugal, position of, 836, 850, 854, 863, 880-881, 888-889, 896, 899, 903, 936, 942, 978
 - Malaya, effect on, 848, 850, 951
 - Philippine position, 825, 836, 850-851, 856, 863, 868, 870, 879, 881, 883-886, 893-894, 898, 902-903, 905, 951
 - Republic of Korea position, 852, 854-856, 861-862, 870, 880-883, 885-886, 889, 892, 894, 936, 978
 - Singapore, effect on, 848-851, 861-863, 866-867, 869, 872, 879-880, 884, 893, 898
 - SCAP position for Japan, 836, 845, 851, 856, 866-867, 880-881, 884, 886, 892-896, 898, 905, 942, 978-979, 983, 985-987, 997, 1001

Chinese Communists—Continued

- U.S. export controls, etc.—Continued
 - U.S. position, 55, 67, 82-83, 85, 108, 466, 536, 613, 627, 824-826, 828-837, 842-846, 848, 850-860, 867-896 *passim*, 901-905, 912, 918, 924, 931-933, 936-939, 941-942, 945-947, 951-952, 960, 963-964, 972, 977-979, 987-988, 992-993, 996-997, 1018, 1023
 - West Germany, position of, 883, 896
- U.S. Information Service at Tientsin, closing of, 954
- U.S. military aid to Chinese Government, attitude toward, 935
- U.S. policy toward, 161, 536-540, 827-828, 1263
- U.S. trade policy toward, 777, 797, 817-906, 934-935, 943-945, 971-973, 1012, 1022, 1212, 1251
- War criminals, delivery of, 1264
- Yuan Tung Development Company, 993-994
- Chinese Council for U.S. Aid (CUSA), *See* Council for U.S. Aid of the Executive Yuan.
- Chinese General Edison, 1259
- Chinese Government (*see also* Blockade of Chinese Communist-controlled ports by the Chinese Government, China White Paper, Economic and financial assistance to the Chinese Government, Military assistance to the Chinese Government, and Taiwan and under Chinese Communists: Recognition question and under Evacuation of Americans from China) :
 - Anchises*, British protest regarding bombing of, 1101, 1110-1112, 1114
 - Burma, severance of diplomatic relations with, 248-249, 253
 - Chinese Communist representation in the United Nations, opposition to, 235-236, 238
 - Control Yuan, 320, 758
 - Disintegration of, 16, 20-21, 57, 67, 112
 - Executive Yuan, 758, 785
 - Legislative Yuan, 233, 306, 313, 320, 408, 443, 775
 - Marshall Mission, attitude toward, 1384-1385
 - Mukden, U.S. protest regarding bombing of, 1121
 - National Assembly, 408, 1408
 - Soviet Union, relations with, 1401-1403, 1406-1407
 - Withdrawal from Nanking to Canton, 1, 3
 - Withdrawal from Canton to Chungking, 125
- Chinese Mass Education Movement, 618, 661
- Chou Chih-jou, Gen., 410, 419, 1395

- Chou En-lai, 93-95, 97-98, 101-102, 104, 106, 108-109, 111, 117-118, 121-122, 126, 131-132, 140, 168, 174, 195, 232, 244, 252-253, 256
- Chou Yu-kang, 1407
- Christelow, Fred, 815-816
- Chu Chang-wei, 400, 550, 579, 1102, 1396
- Chu Chia-hua, 1395
- Chu Teh, Gen., 976
- Chuang, C., 313
- Church World Service, 1296, 1302
- Churchill, Winston S., 207*n*, 343*n*, 1370
- Civil Air Transport (CAT), 521, 1261
- Clappier, Bernard, 88
- Clark, Lewis: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1098-1099, 1102-1104, 1107, 1112-1121; China White Paper, 1373, 1393-1398; Chinese Communist trade practices, 934-936, 941, 959-960; evacuation of Americans from China, 1229, 1268-1273, 1277, 1281-1282, 1287, 1292, 1299, 1301, 1305-1309, 1319; recognition of Chinese Communists, question of, 14, 28; Sinkiang question, 1041, 1047-1048, 1050-1051, 1053-1054, 1056-1061; Taiwan question, 318, 320, 322-323, 331, 336, 344; U.S. economic and financial assistance to the Chinese Government, 611, 615, 634-635, 644, 652-655, 675-678, 686, 710, 712, 759, 763, 771-775, 778, 781-788, 790-791, 793-797, 799, 802-805; U.S. military assistance for the Chinese Government, 517, 526-527
- Cleveland, Harlan, 318-319, 328-329, 355, 371, 373-374, 518, 610-614, 630-632, 633*n*, 636, 646, 651-652, 656*n*, 657, 667, 755
- Clifford, Clark M., 614, 1367, 1370-1374
- Clough, Ralph N., 1221-1223, 1226-1227
- Clubb, O. Edmund: China White Paper, 1365*n*, 1406-1409; Chinese Communist bypassing of U.S. consular offices, 909, 911, 923, 925, 930; Chinese Communist economic and financial policies, 738-740, 772-773, 778-780, 783, 810; Chinese Communist efforts to revive trade with Japan, 974-977, 980-982, 985-986, 988-992, 994-995; Chinese Communist treatment of U.S. consular offices, 913-915; evacuation of Americans from China, 1264; military situation in China, 473, 475-476, 598; petroleum supplies for Communist China and North Korea, 1006; recognition of Chinese Communists, question of, 11, 93-94, 97-98, 102-104, 106-107, 111-115, 117-118, 121-122, 126, 143-144, 148-149, 243-244; U.S. economic and financial assistance to the Chinese Gov-
- ernment, 615, 620-622, 624-626; U.S. trade policy toward Communist China, 943-945, 985, 992-993
- Coalition government, question regarding possibility of establishing, 1-2, 4, 6-7, 12, 293, 298, 303-304, 309, 315, 338, 369, 612-613, 615-616, 636, 1397, 1401, 1408
- Cochran, H. Merle, 883
- Cochran, William P., 101
- Coghill, John P., 1111-1112, 1115, 1126
- Collins, Gen. J. Lawton, 463-464, 467
- Collins, Ralph E., 142-143, 191-192, 201, 216-217
- Commander in Chief, Far East (CINCFE), 419, 427-428, 461, 473, 475, 482, 844
- Commerce, (U.S.) Department of, 489, 498-499, 513, 734, 749, 811, 835, 842-843, 851, 853, 856-861, 883, 890, 892, 923, 927, 933, 936, 942, 963, 972, 984
- Commerce International Corporation, 472, 501-503, 528, 596*n*
- Committee of Three Consultants on the Far East (Jessup, Fosdick, and Case), 379 511*n*, 535, 551, 558*n*, 590, 1022-1023, 1312
- Communications Intelligence Board (U.S.), 1376, 1379, 1382, 1386-1388
- Communist Information Bureau (Cominform), 37, 700
- Congress (U.S.): Adjournment of, 1369; Chennault appearance before, 525, 540-541, 556-557; China White Paper, attitude toward, 1373-1376, 1389-1390; Communist China, question of recognition of, 93, 156, 173-174, 206-207, 219, 243, 723, 1375*n*; economic and financial assistance for Taiwan, 289, 292, 294, 310, 341, 355, 462, 599; economic and financial assistance for the Chinese Government, 508, 513, 600-608, 610, 612, 630-632, 635, 642, 650, 657, 659, 664, 666, 671*n*, 676, 680, 682, 689, 694, 752, 1399; European Recovery Program, 513; House Foreign Affairs Committee, 208, 513, 540, 556-557, 606*n*, 607, 609*n*, 742, 790, 977, 1366, 1389; Huber Committee visit to the Far East, 544-546, 558; military assistance for Taiwan, 335, 467; military assistance for the Chinese Government, 483, 485-486, 506, 513, 515, 551, 584, 586-587, 698, 769*n*; military assistance for Western Europe, 473, 507, 516; Mutual Defense Assistance Act of 1949, 551, 571, 717, 719, 721, 723-724; policy toward China, 1386; Senate Armed Services Committee, 174; Senate Foreign Relations Committee, 174, 208, 304, 604, 606*n*, 607, 1366, 1375,

- Congress (U.S.)—Continued
 1377; Senate Subcommittee on Appropriations, 1366-1367; Wedemeyer Report on China, 1365-1367
- Connally, Tom, 518, 607, 712, 718, 721, 760*n*, 1375-1377
- Connors, W. Bradley, 433
- Corliss, James C., 794-795
- Corse, Carl D., 965-966
- Council for U.S. Aid of the Executive Yuan (CUSA), 328, 620, 635, 658-660, 664, 668, 673, 743
- Council of Foreign Ministers, meetings of, 27, 29, 156*n*, 189, 708*n*, 1368*n*, 1372*n*
- Couve de Murville, Maurice, 103
- Cowen, Myron M., 32, 65-66, 197, 211, 229, 234-235, 247, 434-435, 447, 450-451, 885
- Craig, Loris F., 313, 332-333, 345, 351, 356, 373, 448, 666
- Crawford, Rear Adm. George C., 1236-1237
- Crinkley, Andrew, 1139, 1182, 1185
- Cripps, Sir Stafford, 54, 56, 870
- Cuba, 102, 258
- Culbertson, Swann, 778
- Cummins, E. T., 472-473, 503, 515, 528
- Customs (U.S.), 933
- Cuttat, Jacques A., 209-210
- C. V. Starr, 1302
- Czechoslovakia, 493, 941
- Dairen: Chinese Government closure of, 1113, 1116-1117; Soviet position in, 357, 968; Soviet withdrawal from, 1205-1207; U.S. consular office in, restrictions on, 1359
- Dalai Lama, 1066, 1072
- Daridan, Jean, 48-49, 103*n*, 108, 120, 165, 269, 487-488
- Davies, John Paton, Jr., 160*n*, 433, 536-540, 573
- Davis, Lt. Col. Charles I., 502-503
- Davis, Owen, 36-37
- Davis, Ritchie G., 620, 624-626, 663
- Davis, Thomas C., 146, 201-203
- Dawson, Owen L., 619-620
- Day, Henry B., 218, 227, 246, 252-253
- Dayal, 1082, 1085, 1087, 1093-1095
- Deane, Charles B., 544
- Defense, (U.S.) Department of (National Military Establishment), 556-558, 568*n*, 697, 859-860, 878, 1022, 1183-1184, 1330, 1339-1340, 1374, 1376-1377, 1379, 1381-1382, 1386, 1388
- Delanoy, William C., 1025
- Denfield, Adm. Louis E., 284-286, 1127*n*, 1191-1196, 1200-1201, 1297, 1325, 1377-1381
- Dening, Maberly E., 26, 52-56, 76-78, 81-83, 85, 88, 96, 118, 135, 138-139, 176, 182, 240, 249, 342, 388-390, 436, 802-803, 847, 870-874
- Denmark, 235, 250, 252, 259
- Dennison, Rear Adm. Robert L., 1355
- De Pass, Col. Morris B., 772*n*
- Depon, Surkhang, 1080-1082, 1087
- Dickover, Erle R., 26, 56-57, 341-343, 869-870
- Doherty, Edward W., 795, 965-967
- Dollar, Robert, 1351
- Donovan, Howard, 100-101, 110, 116-117, 127, 133-134, 165-167, 175-179, 197-198, 1063, 1071-1075, 1080-1085
- Doolittle, Hooker A., 45, 112
- Dort, Dallas W., 160*n*, 823-826, 849, 851
- Douglas, Lewis W.: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1114-1115, 1118, 1139; Chinese Government financial assets in the United Kingdom, 801-803; petroleum supplies for Communist China and North Korea, 1016-1018, 1021, 1029; recognition of Chinese Communists, question of, 20, 25-26, 47-48, 50, 52-57, 68-69, 81, 85, 109, 128, 134-135, 138, 139*n*, 149*n*, 193-194, 203-204, 241; surplus tanks, question regarding British sale to the Chinese Government, 473; Taiwan, status of, 341-342; trade with Communist China, 846-847, 853-854, 856, 859, 861-864, 866-870, 887-889, 896-897, 906, 950
- Doyle, John F., 1136-1137
- Dunham, William B., 187, 246
- Dunn, James Clement, 17, 136, 149, 209, 211, 217-218, 221-222, 236
- Eakens, Robert H. S., 1004-1006, 1034
- Ebasco International, 1286
- Economic and financial assistance to the Chinese Government, 157, 504-505, 508, 532, 534-535, 549-816, 1263, 1265, 1279
- Central Bank of China funds, proposals for freezing of, 771-772, 774, 776, 778, 781
- China Dockyards Contract, deferment of payments of principal and interest on, 768-770, 805, 813
- Chinese airlines, proposed assistance for, 517-518, 631
- Chinese Communist-controlled areas, suspension of U.S. aid to, 610-627, 630, 636-640, 642-656, 667, 688, 690, 823-824, 1012-1013
- Chinese Government financial assets in the United States, proposals for control over or freezing of, 789, 797, 801-802, 804, 808, 936, 960, 966, 996
- Chinese Government requests for, 671-816
- Continuation of, question of, 599-601, 606-647 *passim*, 671-675, 680, 682-683, 690, 693

- Economic and financial assistance to the Chinese Government—Continued
- Currency stabilization loan, Chinese Government request for, 671*n*, 681, 746, 750, 752, 754-756, 760, 764
- Economic Cooperation Administration, aid policies and programs for the Chinese Government of the, 157, 476, 504, 517-518, 522, 524, 600-607, 611, 613, 619-654 *passim*, 672-674, 687-689, 703-704, 707-709, 711, 716, 730, 740, 744, 747, 749, 751-752, 755-756, 760-762, 764, 778, 796, 864, 878, 881-882, 1009, 1030, 1120, 1209, 1302
- Economic Cooperation Administration Mission in China, liquidation of, 355, 606, 621-625, 627-628, 630-631, 635-637, 643, 647, 653-671
- Federal Reserve Bank: Chinese Government gold holdings with, 761, 785, 790, 796, 808*n*; Chinese Government payments to, 805; Chinese Government request for loan for purchase of silver, 778, 785; Chinese Government request for purchase of gold, 750-755, 763-764, 794-795; Tibetan request for purchase of gold, 1073
- Financial assets of Chinese nationals in the United States, Chinese Government efforts to control, 757-759, 771, 775-777, 801-802, 804, 808, 936, 960, 966, 996
- Joint Commission for Rural Reconstruction, continuation of programs of the, 617-620, 623, 628, 630-631, 634-636, 639, 644, 646-648, 651-652, 660-661, 665, 667, 675, 684, 688-691, 697
- Kan Chieh-hou Mission to the United States, 671*n*, 699-728
- Loan (\$100 million), Chinese Government request for, 785
- Problems encountered, 601-671
- Reverse Lend-Lease, Chinese Government efforts to obtain settlement of, 785, 791, 802
- Silver: Chinese Government request for lead-lease of, 761-762, 764; coinage of silver in the United States, Chinese Government request for, 780-781, 784-785, 787, 791, 799
- Silver loan, Chinese Government request for, 633, 681, 683-684, 686, 688-690, 693, 704, 707-709, 711, 716, 722, 737, 740-741, 743, 745, 753-754, 764, 775, 778
- Special account, 632-635
- Stabilization fund, 737
- Suspension and diversion of aid shipments, 639-643, 645-647
- Economic and financial assistance to the Chinese Government—Continued
- Tin purchases by the United States, 760, 764
- War accounts settlement, question of, 802
- Economic and financial situation in China, 311, 599, 608, 636, 658-662, 680-683, 690, 692, 718-719, 729-738, 740-750, 755-763, 773-775, 782, 790-791, 793-797, 799, 803-805, 814-815, 951, 1109
- Currency reform measures, 729-735, 742-743, 782-786, 793-796, 803
- Economic reforms, 732
- Financial and monetary reforms, 737-738, 740-747, 774-775, 782-783
- Gold and monetary reserves, 738, 740-741, 743, 745, 749-750, 753, 755-759, 761, 763-764, 774, 785, 788-791, 796, 814-815
- Gold yuan situation, 304, 729-738, 740-745, 748, 750, 758, 761-762, 782-783, 791, 795-796, 1233
- Inflation, 729, 732, 734, 736, 748, 759, 771, 1109
- Silver currency standard, adoption of, 680-683, 685, 692-693, 718-719, 737-738, 742-745, 748, 761, 764, 771, 782-783, 787, 791, 793-794, 796, 799, 803, 805
- Economic Commission for Asia and the Far East (ECAFE), 143
- Economic Cooperation Act of 1949, 587*n*
- Economic Cooperation Administration (ECA) (U.S.). *See under* Economic and financial assistance to the Chinese Government; Korea: Republic of Korea; and Taiwan.
- Ecuador, 258
- Eden, Anthony, 1096
- Edgar, Donald D., 248-249, 297-337 *passim*, 344-346, 351-354, 356, 364, 374, 399-400, 428, 444-455, 468, 471, 919, 1100, 1185-1186, 1395, 1404-1406
- Egypt, 115, 258
- Eichelberger, Clark M., 485
- Eisenhower, Gen. of the Army Dwight D., 485
- Elizalde, Joaquin M., 32
- Elliot, John C., 527-528
- Ellis-Novak Company, 502
- Elting, Howard, 204
- Emery, Frank, 197
- European Recovery Program (ERP), 513, 674
- Evacuation of Americans from China: Chartered commercial airlifts, proposed use of, 1294, 1299-1300, 1302, 1304, 1314, 1318, 1323, 1327, 1330, 1349, 1362
- Chinese Communist attitude, 1264, 1280-1353 *passim*, 1360-1364

- Evacuation of Americans from China—
Continued
Chinese Government position, 1266–1269, 1271, 1273, 1285–1347 *passim*, 1360, 1362–1363
Exit permits for Americans, Chinese Communist policy regarding, 1283–1314 *passim*, 1331, 1337–1338, 1342–1343, 1345–1346, 1348–1352, 1361–1363
Return of dependents to China, U.S. policy regarding, 1220–1231, 1234–1238, 1260–1261
Return of dependents to the United States, 1229–1230, 1234
Safehavens for evacuees: Hong Kong, 1255, 1269, 1272; Japan, 1253, 1255, 1272; Macao, 1216, 1220; Philippines, 1216, 1219–1222, 1230–1232, 1234, 1272
SS *General Gordon*, evacuation voyage of, 89, 105, 806–807, 809, 1101, 1135–1136, 1142, 1145–1146, 1246, 1261, 1276–1278, 1284–1353 *passim*, 1363
Taiwan: Evacuation warnings for Americans on, 1212–1216, 1261, 1269, 1353–1359, 1364; suspension of dependent travel to, 1358–1359; U.S. Consulate General, question of retention in event of Chinese Communist occupation, 1354, 1358–1360, 1364
United Nations role, question of, 1291, 1294, 1302, 1317
U.S. Marines at Nanking, 1216–1217, 1241, 1243
U.S. Marines at Shanghai, 1236, 1241–1242, 1244
U.S. naval forces, role of, 1216–1217, 1231–1258 *passim*, 1266, 1272, 1294, 1318
U.S. policy and program for, 78, 89, 233, 508–509, 543, 662, 806, 873–874, 891, 951, 1123–1124, 1128–1129, 1135, 1137–1138, 1145, 1180, 1202, 1210–1212, 1215, 1218–1219, 1224, 1240–1293 *passim*, 1299–1300, 1302, 1306–1307, 1314–1345 *passim*
Evacuation of Chinese nationals from China, question of, 1237, 1288, 1290, 1293, 1321, 1346–1347
Evacuation of other foreigners from China: British policy regarding, 55, 59–60, 137, 821, 874, 876, 1125–1126, 1130, 1219, 1229, 1244, 1246, 1248–1249, 1251, 1259–1260, 1271, 1273–1274, 1277, 1293, 1296, 1304–1305, 1308, 1315, 1324, 1334–1335, 1360–1362; French position, 1246, 1248–1249, 1334, 1344; U.S. policy regarding, 1232, 1237, 1253–1255, 1266–1267, 1275, 1278, 1280, 1321, 1325
Evans, J. K., 1004–1006, 1034–1035
Evatt, Herbert V., 28, 48–49, 92, 142, 145, 147, 155, 201
Export-Import Bank of Washington, 737, 1077
Fales, Herbert P., 512
Far East Air Force, 426
Far East America Council, 1317
Far East Command, 497
Far Eastern Commission, 333, 354, 360n, 1383
Federal Bureau of Supply (Treasury), 512–513, 576, 595
Federal Reserve Act (1913), 771, 774–776, 797, 804, 808, 936
Federal Reserve Bank. *See under* Economic and financial assistance to the Chinese Government
Federal Reserve Board, 811
Feng Chih-ho, 1345–1346
Fenoaltea, Sergio, 799n
Ferguson, Charles, 1281
Fisher, Adrian S., 573, 1122
Flanley, F. F., 1248, 1251, 1351–1352
Fleming, Andrew C., 929
Fletcher, Walter, 342
Flexer, Fayette J., 263–265
Folsom, Robert S., 1259–1260
Food and Agriculture Organization (FAO), 171
Ford, J. F., 1, 2n, 6, 11n, 12n, 76, 242, 301–302, 388, 467–468, 523–524, 641–642, 649, 872, 900, 1100, 1153–1154, 1159, 1273–1274
Foreign Aid Appropriations Bill for 1949, 601n
Foreign Assistance Act of 1948, 614n
Foreign diplomatic and consular missions in China, location of, 1, 16, 34, 82, 84, 88
Foreign Liquidation Commission, 770
Foreign Traders Association of Philadelphia, 509n
Formosa. *See* Taiwan.
Forrestal, James, 261, 284, 479–480, 484n, 488–489, 1198–1199
Fosdick, Raymond B., 160n, 208, 379n, 551n, 581, 1312, 1316
Foster, Andrew B., 19, 32–33, 35, 41, 49–50, 179, 260
Foster, William C., 653–654, 687
Fox, Maj. Gen. Alonzo P., 544
France (*see also* *French subheadings under specific subjects*), 258, 360n, 432, 487–488, 863–864, 866–870, 873, 879–884, 887, 893–894, 896–906
Franco, Gen. Francisco, 12, 22
Frankel, Capt. Samuel B., 1223
Franklin and Bryan, 1259
Franks, Sir Oliver S., 2, 6, 219–220, 224, 226, 241, 435, 438, 442–443, 817, 821, 837, 852
Fraser, Peter, 194, 204

- Freeman, Fulton, 76, 92, 96-97, 99-100, 103*n*, 106, 108-109, 120-121, 142-143, 216-217, 251-252, 388-390, 487-488, 558*n*, 692-696, 701, 706, 710, 718-721, 789*n*, 795, 872, 971-972, 1004, 1015-1016, 1100*n*, 1153-1154, 1187-1188, 1273
- French Indochina (*see also under* Chinese Communists: U.S. export controls, etc.): Agreement between Bao Dai and the French Government, *Mar.* 8, 240-242, 251; British policy toward, 189-190, 226, 237, 240-241, 257-258; effect of Chinese Communist victory in China on, 10, 21, 63-65, 86-88, 90, 136, 164, 169-170, 176-177, 182, 185, 189-190, 227-228, 232, 436, 465, 520, 584, 592, 714, 723-724, 820, 822, 860, 863; effect of Japanese occupation, 177; nationalist movement, 91; political situation, 178; U.S. policy toward, 162, 189-191, 570; Viet Minh, 63-65, 136, 487; Viet-Nam, 237, 240-242
- French Union, 240
- Frohlich, William, 794-795
- Fu Tso-yi, Gen., 473, 475-476, 598, 663, 702, 714
- Fugh, Philip C., 351, 1038
- Gabbert, Lt. Col. John T. L. D., 1180
- Gabriel, Augustin G., 211
- Gallman, Waldemar J., 97
- Gay, Merrill C., 856, 863, 922, 929
- General Agreement on Tariffs and Trade (GATT), Third Session of Contracting Parties, *Apr. 11-Aug.* 27, 944
- George, J. M., 859-860
- Gerig, O. Benjamin, 346
- Gibson, William M., 86-88
- Gowen, Franklin C., 116*n*, 128
- Graham, 102, 108, 118, 122, 126, 143
- Graham, Walter G. C., 916*n*
- Graves, Hubert A., 2, 5-6, 120-121, 149-151, 184-186, 191, 198-200, 208, 224-225, 248*n*, 425-426, 435-438, 443, 467-469, 589, 594, 641, 817*n*, 821*n*, 823-826, 834-837, 841-843, 845-846, 849-854, 900, 1085*n*, 1088, 1095-1096
- Greece, 515, 521, 554, 558
- Green, Marshall, 544*n*
- Greene, George H., 764
- Gregory, Benjamin F., 1348
- Gregory, Mrs. Benjamin F., 1348
- Gresswell, H., 899
- Griffin, Col. R. Allen, 308-309, 311, 318-320, 345, 355, 632, 635-637, 640, 654, 657, 665, 737, 743, 755-757, 762
- Gromyko, Andrey Andreyevich, 94-95
- Gross, Ernest A., 256-257, 513-515, 573, 1025-1026, 1373, 1375-1376
- Guy, Edward G., 794-795
- Hagglof, Ingemar, 251-252
- Hall, William O., 576-577
- Hamilton, Minard, 501-502
- Han Li-wu, 763-764, 1103, 1393
- Han Ming, 1346
- Han Yu-chen, 1062
- Hardy, Warren R., 1173-1176, 1182
- Hare, Raymond A., 160*n*, 223
- Harriman, W. Averell, 881*n*
- Harrington, Julian F., 145-146
- Hassett, William D., 643*n*
- Hatta, Mohammed, 199, 246, 256
- Hawthorne, Carl O., 668, 1021
- Hay, John, 1210-1211
- Heath, Donald R., 98
- Helb, H. A., 244-246
- Henderson, Alexander I., 611
- Henderson, Loy W., 29, 31, 43-46, 72-74, 210, 215-216, 221-222, 227, 253-255, 1064-1065, 1069-1080, 1086-1087, 1089-1097
- Henning, A. C., and Company, 987, 991
- Henningson, A., 1259
- Henry, Robert, 1296, 1309, 1342-1343, 1345-1346
- Hester, Evett D., 119, 126-127, 129, 167
- Hevia, Carlos, 102
- Hillenkoetter, Rear Adm. R. H., 1024
- Hinke, Frederick W., 929, 955, 963-964, 973-974, 988
- Ho Chi Minh, 64, 189-190, 228, 251
- Ho Tung, Sir Robert, 410
- Ho Ying-chin, Gen., 301, 306, 501, 675-677, 746, 752-755, 758, 925, 1053, 1059
- Hoffman, Esther, 1165-1166, 1168-1170
- Hoffman, Paul G.: Economic aid for the Chinese Government, 508, 518, 602, 606, 611-618, 626, 630-631, 633, 643-644, 646, 648, 651, 656-657, 661, 664-665, 687-691, 696; economic aid for Taiwan, 270, 278, 287, 310, 355-356; economic aid for the Republic of Korea, 1005
- Holleman, Clarence, 1261
- Hollimon, B. B., 1351
- Holmes, Julius C., 20, 70, 101-102, 118-119, 123-124, 139-140, 215, 220-221, 223-224, 237-238, 240-241, 257-258, 475, 868-869, 871, 1090-1091, 1140
- Hong Kong (*see also under* Chinese Communists and Chinese Communists: U.S. export controls, etc. British defense of, 25, 50, 82-85, 90-91, 147, 173, 177, 190, 425-426, 435, 442, 463, 589, 821, 869, 877, 893, 1394; Joint Chiefs of Staff views regarding U.S. role, 170 Capital flight to, 971 Chinese Communist control over mainland China, effect of, 6-7, 33, 50, 58, 65, 75, 82-83, 130, 142, 145, 150, 155, 170, 185-188, 225, 342-343, 379, 817-818, 820, 828, 869, 1107, 1204-1205, 1304 Chinese Government use of Hong Kong facilities, ban on, 1160

- Hong Kong—Continued
 Chinese refugee problem, 343, 817, 820
 ECA China headquarters, temporary transfer to, 649
 ECA supplies for China, diversion to Hong Kong, 636, 638, 1303
 Military supplies for China, diversion to Hong Kong, 753
 Shanghai petroleum stocks, transfer to Hong Kong, 1010
 Trade with Communist China, 907, 910-912, 916, 920-925, 927, 931, 940, 943, 950, 954-955, 958, 965, 969-970, 973-974, 979, 982, 994, 1002-1003, 1005, 1007-1008, 1011, 1014, 1026, 1130, 1162
 Trade with North Korea, 840-841, 924
 Hopkins, Harry L. 1406
 Hopkins, Paul, 812, 1009-1010, 1012, 1304, 1351-1352
 Hopper, George D., 277, 649, 911*n*, 1014, 1019
 Hornback, Harry L., 769*n*
 Howard, John H., 1373
 Hoyer-Millar, Sir Frederic. *See* Millar, Sir Frederic Hoyer.
 Hsi, T. M., 796
 Hsiao Li-kwun. *See* Shaw, L. K.
 Hsiao Shen-onu, 391
 Hsieh Han-ju, 448
 Hsieh Hsueh-hung, 451
 Hsieh Wei-lin, 250
 Hsiung Hsi-hui. *See* Sheng Shih-tsai.
 Hsiung Ta-lun, 1058-1060
 Hsu Kan, 677-678, 686, 736-737, 740, 742-743, 745, 748-749, 788, 790-791, 793, 804, 1103
 Hsu Pai-yuan, 354
 Hsu Pin-tien, 384, 386-387, 455
 Hsu Po-yuan, 730, 795-796
 Hsu Yung-chang, 925*n*
 Hsueh Yo, Gen., 268
 Hsueh Yueh, Gen., 522, 555, 702, 763
 Hu Ching-yu, 1167
 Hu Shih, 279, 585, 713
 Hu Tsung-nan, Gen., 414, 702, 712, 714
 Huang, C. C., 335, 431, 447-448
 Huang, P., 322-323
 Huang, Peter, 383
 Huang, Philip, 383-384
 Huang Chao-chin, 415
 Huang Hsiao-ku, 413
 Huang, Hua, 351
 Huang Lien-teng, 448
 Huang N Ping, Gen., 391
 Huang Shao-ku, 398
 Huang Siang, 126
 Huber, Walter B., 544, 558
 Hubert, Paul, 507
 Huddle, J. Klahr, 33-34, 37, 41, 79-80, 162
 Hughes, Morris N., 209
 Hukbalahaps, 65
 Humelsine, Carlisle H., 29, 1372, 1383
 Hummer, Capt. H. R., 1204, 1206
 Hungary, 101, 244
 Hurley, Maj. Gen. Patrick J., 1370, 1381, 1404, 1406, 1408
 Hurley Mission to China, 1408
 Huston, Cloyce K., 991*n*
 Hutchison, John C., 242, 248, 955*n*
 Hwang Taiam-leong, 386
 Iceland, 285-286
 Imin, Mohammed, 1043, 1045, 1049
 India (*see also under* Chinese Communists: Recognition question): British support for, 726; effect of a Chinese Communist victory in China, 8-9, 67, 232, 584, 724, 820, 822, 1091, 1094; Far Eastern Commission, member of, 360*n*; Taiwan question, 348; trade with China, 1042; U.N. Security Council, member of, 258; U.S. policy toward, 162, 726; U.S. policy toward Taiwan, 432; World War II, 727
 Indonesia (*see also under* Chinese Communists: Recognition question): Effect of Chinese Communist victory, 10, 255, 822, 850; independence of, 245; Japanese occupation, effect of, 177; political situation, 178-179; U.S. export controls for Communist China and North Korea, 863, 883, 887, 951; U.S. military assistance for, 570, 572, 574; U.S. policy toward, 162, 461; U.S. policy toward Taiwan, 432
 Inner Mongolia, 509, 946, 963
 International Bank for Reconstruction and Development, 171
 International Emergency Food Council, 675, 1107, 1301, 1304
 International General Electric, 1286
 International Labor Organization, 171
 International Monetary Fund, 171, 678, 751
 International Red Cross, 1280, 1294, 1302, 1317
 International Refugee Organization, 171, 1293, 1302-1303, 1363
 International Telephone and Telegraph Company, 1248, 1251, 1286, 1315
 Isbrandtsen, Hans, 1169
 Isbrandtsen Steamship Company, 723, 1108, 1131-1159 *passim*, 1164-1165, 1168-1169, 1171, 1173-1174, 1182-1186, 1353
 Israel, 20, 22, 209, 929
 Italy. *See under* Chinese Communists: Recognition question *and under* United Nations.
 Ivy, James T., 625-626, 663, 917
 Jackson, Wayne G., 900
 Japan (*see also* Supreme Commander, Allied Powers, Japan): British policy toward, 51; Chinese Communist control over mainland China, effect

- Japan—Continued
 on Japan of, 6, 67; defense of, 432;
 ECA shipments for China, diversion
 to Japan of, 665-666, 684, 689, 1303;
 Okinawa, question of return to
 Japan of, 233; strategic importance
 of, 827; Taiwan, proposed return to
 Japan of, 287; U.S. policy toward,
 160, 378, 393, 624, 827
- Japanese peace treaty: Anglo-American
 discussions, 220; Anglo-American-
 French discussions, 91, 695; British
 Commonwealth discussions, 219,
 238, 442; Chinese Communist par-
 ticipation in, question of, 54, 157;
 Chinese Government proposal, 695;
 Kurile Islands, status of, 328*n*; So-
 viet position, 27, 695; Taiwan,
 status of, 269, 271, 328*n*, 336, 350,
 354, 357, 361-362, 366, 382, 391
- Jardine, Matheson & Company, 151, 873-
 874, 913, 950, 1168, 1278, 1288, 1296,
 1300, 1303-1304, 1349, 1362
- Jarman, Pete, 85, 91, 142, 145, 179-180,
 260
- Jen Hsien-chuen, 354, 445, 455
- Jenkins, Walter E., 597
- Jessup, Philip C., 81, 84-85, 158, 198,
 208, 244, 379*n*, 551, 581, 696, 1122,
 1129, 1312, 1372-1373, 1376-1377
- Jha, C. S., 101, 1097
- Johnson, George, 510
- Johnson, Louis: Blockade of Chinese
 Communist-controlled ports by the
 Chinese Government, 1183-1184;
 China White Paper, 1376-1377,
 1382, 1385-1389, 1391; evacuation of
 Americans from China, 1324, 1329-
 1331, 1339-1340; petroleum supplies
 for Communist China and North
 Korea, 1022; Taiwan, U.S. policy
 toward, 307-308, 376, 460; U.S.
 military assistance to the Chinese
 Government, 535, 551-552, 556-558,
 568*n*, 570, 697
- Johnson, Richard E., 589-590, 795, 1034
- Joint Chiefs of Staff (JCS): Blockade
 of Chinese Communist-controlled
 ports by the Chinese Government,
 1326; Chennault plan, 540-541, 556-
 558; China White Paper, 1376-1382,
 1385-1389, 1391; Hong Kong, de-
 fense of, 170; Iceland, strategic im-
 portance of, 285-286; Indonesia,
 U.S. military assistance to, 461;
 Joint U.S. Military Advisory Group
 (China), 495*n*, 497; military situa-
 tion in China, 689-690; Okinawa,
 strategic importance of, 265; Ry-
 ukyu Islands, strategic importance
 of, 262; SS *Gordon* voyage to
 Shanghai for evacuation of Ameri-
 cans, 1323-1324, 1326, 1330-1331;
 Taiwan, strategic importance of,
 261-262, 266-267, 271, 279-280, 284-
 286, 291, 293, 295, 307-308, 327, 337,
- Joint Chiefs of Staff—Continued
 341, 348, 357, 370-372, 375-379, 388,
 393, 396, 443, 463-467; Taiwan, U.S.
 military aid for the defense of, 460-
 462, 464, 467-468; U.S. military as-
 sistance to the Chinese Government,
 551-555, 567-569
- Joint Commission for Rural Reconstruc-
 tion. *See under* Economic and finan-
 cial assistance to the Chinese Gov-
 ernment *and* Taiwan.
- Joint Export-Import Board for Western
 Germany, 892
- Joint Strategic Survey Committee, 561-
 568
- Joint U.S. Military Advisory Group in
 China (JUSMAG), 275, 278, 420,
 430, 462, 465, 489, 491, 495-497, 515,
 555, 558, 583
- Jones, J. Wesley, 70-72, 541-544, 615,
 633, 956-958, 1126, 1291, 1310, 1318-
 1319, 1323, 1325-1326, 1334-1335,
 1353, 1399-1400, 1407
- Jones, Jefferson, 1079-1080
- Jordon, Philip, 237-238
- Ju Peng Teh, 448
- Judd, Walter, 607
- Kallan Mining Administration (KMA),
 909, 932, 938, 974
- Kállai, Gyula, 101
- Kan Chieh-hou, 671*n*, 693, 699-728, 753-
 754, 1368, 1400-1403
- Kao Kang, 955-956, 962
- Kashmir, 1095
- Kashmir dispute between India and
 Pakistan, 9-10, 257
- Kavanaugh, Col. E. P., 871, 1016, 1024-
 1029, 1031, 1312*n*
- Keany, J. R., 1004, 1006
- Kee, John, 513
- Kennan, George F., 52, 160*n*, 263, 356-
 359, 368, 511
- Keswick, John, 151, 1304
- Keynes, John Maynard, 731
- Khoman, Thanat, 197-198
- Kierman, Frank A., 1222, 1223*n*, 1227
- King, D. D., 1350, 1352
- Kirk, Alan G., 49, 66-68, 94-96, 106-108,
 131, 183-184, 955, 961-963, 1306-1407
- Knapp, J. Burke, 751-752, 775-777, 782,
 807-808
- Knowland, William F., 1022, 1025
- Ko Pien. *See* Hsu Pin-tien.
- Koch, A., 1188
- Kohler, Foy D., 35, 1075-1076
- Koo, V. K. Wellington: Blockade of
 Chinese Communist-controlled
 ports, 1120, 1187; Chinese Ambassa-
 dor, possible removal of as, 719;
 military situation in China, 89, 552-
 554; recognition of Chinese Com-
 munist, question of, 147, 235-236;
 Taiwan question, 365-366, 368, 456-
 457; U.S. aid for Taiwan, 421, 457-
 460; U.S. economic and financial

- Koo, V. K. Wellington—Continued
 assistance for the Chinese Government, 89, 624, 671, 678-688, 692-693, 698, 705-714, 718, 768, 780-781, 791, 805, 808*n*, 813, 1368; U.S. military assistance for the Chinese Government, 514, 527, 529-533, 535, 551, 577-578, 597, 606*n*, 687, 698, 1280
- Koplowitz, Wilfred D., 1031
- Korea:
 North Korea (*see also* Chinese Communists: Petroleum products, etc., and U.S. export controls, etc.): Soviet influence and control over, 545-546, 894; trade with Hong Kong, 840-841, 924; trade with Japan, 924
- Republic of Korea (South Korea) (*see also under* Chinese Communists: Recognition question and U.S. export controls, etc.):
 ECA control over exports to, 855-856, 886, 892, 1005
 ECA mission, 883
 ECA shipments to, 1169
 ECA stocks in China, transfer of, 623
 Petroleum supplies for, 1005, 1007
 U.S. policy toward, 160, 467, 570, 1005
 U.S. policy toward Taiwan, 432
 Strategic importance of, 467
 Wedemeyer report on Korea, inclusion in China White Paper, 1367
- Koxinga. *See* Cheng Cheng-kung.
- Krentz, Kenneth C., 160*n*, 267-269, 276-281, 283, 289-290, 293, 300, 317, 468, 471, 484, 500, 1018, 1212-1214
- Ku Chu-tung, Gen., 549
- Kung, H. H., 414
- Kungs, 701, 775
- Kuomintang (KMT) (*see also under* Taiwan), 3-4, 7-8, 16, 20, 38, 76, 112, 128, 277, 283, 322, 338, 351-352, 383-384, 394, 398, 408, 420, 465-466, 494, 525-527, 586, 598, 618, 694, 702, 713, 786, 800, 812, 945, 947, 956, 958, 969-971, 973, 1015, 1055, 1063, 1107-1109, 1262, 1284, 1297, 1301, 1303-1304, 1350, 1353, 1394-1396, 1398-1399, 1405, 1408-1409; CC Clique of the, 283, 300, 309, 323, 413, 701, 703, 719, 759
- Kuomintang Revolutionary Committee in Hong Kong, 7, 323
- Kurile Islands, status of, 328*n*
- Kwei Yung-ching, Vice Adm., 389, 419, 430, 769, 1122, 1127, 1167, 1172, 1179-1181, 1208, 1341
- Kyo Hahn En, 386
- Kyo Hei. *See* Hsu Pin-tien.
- Labouisse, Henry R., 611, 614, 645
- Langdon, William R., 75-76, 176-177, 182, 249-250
- Lapham, Roger D., 287, 289, 318, 320, 345, 355, 518, 604, 610, 615-618, 620, 622-623, 626-631, 633, 645, 649, 654, 656-667, 691, 711, 755
- Larkin, Maj. Gen. Thomas B., 528
- Lay, James S., Jr., 499, 889-890
- Leahy, Fleet Adm. William D., 261-262
- Lenin, Vladimir Ilyich, 255*n*
- Li, Col. David, 503-505, 515-517, 528, 597
- Li Chen-cheng, Gen., 334-335
- Li Han-kun, 578
- Li Tse-min, 994
- Li Tsung-jen:
 Acting President of China, 154*n*, 553, 562, 663, 676*n*, 694, 736, 741, 743, 745, 774, 1220*n*
- Blockade of Chinese Communist-controlled ports, 1099, 1102, 1112, 1114
- Chiang Kai-shek, relations with, 89, 324, 327, 331, 339, 370, 396, 412-413, 553, 562, 593, 636-637, 677, 749-750, 760, 1399
- China White Paper, attitude toward, 1393, 1399-1401
- Chinese Communists, military activities against, 522, 526-527, 541-542, 546-550, 1040
- Mission to the United States of Dr. Kan Chieh-hou, 699-726 *passim*
- Peace negotiations with the Chinese Communists, 3, 112, 297-299, 337, 481-482, 526, 636
- Sinkiang question, 1045, 1048, 1053, 1059
- Sino-Soviet negotiations, 1402-1403
- Taiwan question, 297-299, 308, 312, 318, 327, 331-333, 336-338, 352, 400-402, 407-408, 419, 585
- Trade with Communist-controlled areas, 905
- U.S. economic and military assistance, 495, 499-502, 555, 578-579, 633, 671*n*, 693, 699-726 *passim*, 753-755, 761, 871; withdrawal of U.S. naval forces from Tsingtao, 1200, 1204
- Li Yu-lan, 555
- Li Yu-pang, 449
- Liao, Joshua, 276, 287
- Liao brothers, 391, 451-452
- Lie, Trygve, 195
- Lin Piao, Gen., 549, 579, 1004
- Little, L. K., 147-148, 344, 400, 433-434, 444-445, 1059
- Liu, S. Y., 344-345, 633, 736-737, 740-741, 743, 745, 748-750, 755-757, 759, 761-763, 771, 774, 778, 781, 785-786, 791, 814-815
- Liu, T. Y., 374
- Liu An-chi, Gen., 445, 1155, 1208
- Liu Chi-kung, 449

- Liu Chih-wei, 1407
 Liu Meng-chuen, 1043, 1045
 Liu Po-cheng, Gen., 336, 549
 Liu Shao-chi, 35
 Liu Tse-jung, 1039, 1043-1047, 1049-1050, 1052-1053, 1062
 Liu Wei-kwei, Gen., 555
 Lo, Lorenzo, 1363
 Lo Cho-ying, Gen., 283, 290
 Lo Hai-sha, 1126
 Lo Lung-chi, 114, 122, 382
 Lockett, Thomas H., 42, 1222-1223, 1225, 1230, 1232
 Lovett, Robert A., 1, 6, 261*n*, 265-267, 270-271, 278, 472-474, 604, 610-617, 706, 817, 821, 837, 1198-1199, 1210, 1214-1215
 Lovre, Harold O., 544
 Lu Han, Gen., 79, 112, 694
 Luboshez, Capt. S. N., 768*n*
 Luciolli, Mario, 163-164
 Ludden, Raymond R., 317, 615, 638
 Lung Yun, 112
- Ma Chen-hsiang, Lt. Gen., 1039, 1042, 1049, 1058, 1062
 Ma Ching-yuan, 1247-1248
 Ma Hung-kwei, Gen., 702, 712, 1039-1040
 Ma Pu-fang, Gen., 702, 1040, 1042, 1058, 1061
- Macao (*see also under* Chinese Communists: U.S. export controls, etc.): Chinese Communist attitude toward, 82; Portuguese policy regarding defense of, 25, 90, 187-188, 247; safe haven for evacuees from China, proposed, 1216, 1220
- MacArthur, Gen. of the Army Douglas: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1156; Japanese trade with Communist China, question of, 974*n*, 977, 997-998, 1001*n*; Korean situation, 545-546; Okinawa, strategic importance of, 264-265, 546; Supreme Commander, Allied Powers, Japan, 205; Taiwan, U.S. policy toward, 263-265, 278, 317, 353, 379, 386, 432, 465; U.S. policy toward China, 544-545, 558-560
- MacArthur, Douglas, 2d, 48, 88
 MacDonald, John J., 147-148, 364-392 *passim*, 397-434 *passim*, 441, 443-444, 458, 1159-1161, 1180, 1336, 1340-1342, 1353-1360, 1364, 1387, 1392, 1395
 MacDonald, Malcolm, 76, 182, 238-239, 249
 MacKay, J. A., 807
 Mackeirnan, Douglas S., 1061-1062
 MacVeagh, Lincoln, 25-26
 Madden, Vice Adm. Alexander C. G., 1246
 Maddocks, Maj. Gen. Ray T., 478, 481
- Magill, Robert N., 76, 638, 789-790, 795, 816, 823-826, 834, 837, 849, 851, 871-875, 900-901, 965-966, 1004, 1028-1029, 1031, 1034, 1312
- Maharajkumar of Tehri-Garhwal, 1074
- Malaya: Effect of a Chinese Communist victory in China on, 7-8, 75-76, 85-86, 176-177, 179, 225, 239, 249-250, 343, 822, 860; effect of U.S. export controls for Communist China and North Korea on, 848, 850-851; independence, question of, 91; political situation, 573, 822; U.S. policy regarding, 162
- Malik, Yakov A., 256-257
- Manchuria (*see also* Chinese Communists: Soviet-Manchurian trade agreement): Return to China after World War II, 350; Soviet activities and influence in, 113, 292, 295, 347, 357, 385, 393, 493, 509, 535, 829, 894, 946, 956-959, 962-963, 967-969, 989, 993, 1007, 1026; trade with, 924, 946-947, 950, 958-959, 978-979, 986-987, 989, 992-995, 1001-1003, 1006-1008, 1011, 1026-1027; U.S. export controls, 854-855, 881, 894, 904; Wedemeyer report recommendations regarding, 1365-1366, 1408
- Mao Tse-tung: Administrative problems, 492; Burmese attitude toward, 162; Eight Points, 1262; peace negotiations, 481, 741; political views, 977, 1404; recognition question, 67, 70, 93-94, 101, 116-117, 133, 176, 182, 195, 211, 228, 237, 452; Soviet Union, attitude toward the, 3-4, 211, 232, 466, 493, 962-963, 1409; Taiwan question, 382-383; Tibet, status of, 1081, 1084-1085, 1094; U.S. supported aid projects, 620; visit to Moscow, 229, 232, 237, 962
- Mar, Rear Adm. Pellian T., 769*n*
- Maritime Commission (U.S.), 1022-1024, 1133, 1187, 1189, 1252, 1255-1256
- Markert, P. M., 1281, 1312*n*
- Marshall, Gen. of the Army George C., 422, 475, 514, 609, 611, 699, 706, 709, 742, 1068, 1212-1215, 1366, 1368, 1371, 1381, 1384-1386, 1395, 1408
- Marshall, S. S., 1351
- Marshall Mission to China (1945-1947), 699, 709, 1371, 1383-1385, 1395, 1405, 1408
- Martin, Edwin M., 834-835, 837, 854, 856, 859, 861-866, 887, 949-950, 1016, 1018
- Martin, Edwin W., 402, 406-407, 409
- Massigli, René, 194, 213, 236, 240
- Mathews, Elbert G., 160*n*, 196
- Matlock, Clifford C., 512
- Matthews, H. Freeman, 250

- Mazzocco, William, 859-860
 McAfee, William, 425-426, 472, 507, 572, 593-594
 McBride, John W., 1004-1006, 1016
 McCloy, John J., 190-191
 McConaughy, Walter: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1129-1157 *passim*, 1163-1190 *passim*; China White Paper, 1393-1394, 1403-1404; Chinese Communist currency control regulations, 806-807, 809-811; Chinese Communist treatment of foreign banks and business, 800, 810-812, 814; ECA supplies in Chinese Communist control, disposition of, 668-670; evacuation of Americans from China, 1274-1311 *passim*, 1316-1364 *passim*; recognition of the Chinese Communists, question of, 116, 137-138, 235; Soviet relations with the Chinese Communists, 955-956, 959, 967-969; Taiwan question, 382-383, 385; U.S. export controls for Communist China, 951-955, 958-960, 963-965, 970-971, 1020-1021, 1029-1031, 1035-1036
 McCormick, Robert R., 137
 McDermott, Michael J., 100, 328, 332, 450, 456, 723*n*
 McDiarmid, Orville J., 795
 McFall, Jack K., 205-208
 McGearey, Stanley A., 1250-1251
 McGhee, George C., 81, 160*n*, 573, 1076
 McGinnis, Joseph W., 1134
 McGray, Andrew, 803
 McIntosh, Alister D., 204
 McIntyre, Francis E., 854, 856, 859, 861-863, 887, 950, 1016
 McKee, Frederick C., 485
 McMillan, W. W., 1351
 McNaughton, Gen. A. G. L., 257
 McNeil, Hector, 868-869
 McNichol, David W., 92
 McWilliams, W. J., 1024
 Meade, Charles A. G. deJ., 76, 388, 872, 1122-1125, 1130, 1273-1274
 Meiklejohn, Norman V., 637, 666, 670, 691-692
 Melby, John F., 451, 1365
 Mellen, J. Grenville, 1255
 Menon, Krishna P. S., 43-44, 116-117, 133-134, 221-222, 227, 1086, 1089, 1091-1092
 Merchant, Livingston T.: Chinese Communist bypassing of U.S. consular offices, 912, 916, 919, 925; Chinese Communist trade with Japan, 981, 985, 996-998; Chinese Communist treatment of U.S. consular offices, 996; economic and financial situation in China, 740; evacuation of Americans from China, 1273; petroleum supplies for Communist China
- Merchant, Livingston T.—Continued
 and North Korea, 1022-1026, 1031; recognition of Chinese Communists, question of; 76, 78, 88, 106, 120-121, 191-192, 198, 200-201, 258; Taiwan question, 287-288, 293-341 *passim*, 347*n*, 352, 355, 368, 375, 388-389, 431-433, 435-437, 456, 463, 500, 646, 648; Tibet, status of, 1088; trade with Communist China, U.S. policy regarding, 849, 870-871, 873-875, 900-901, 936, 939, 941, 997; U.S. economic and military assistance to the Chinese Government, 611, 615, 633, 637-638, 667-668, 729-733, 746, 757-758, 760, 762, 789, 1129; U.S. policy toward China, 544*n*
 Metzger, Stanley, 795
 Mexico, 681, 683, 692, 718, 771, 785-786, 1248
 Meyrier, Jacques, 16*n*, 20, 26, 47, 49, 89, 164, 1248
 Mid-East Crude Sales Company, 1028-1029
 Military Assistance Act of 1949, 464
 Military assistance to the Chinese Government (*see also specific subjects under Taiwan*), 160, 472-598, 600, 627, 629, 678-681, 685-686, 693, 697-699, 715-717, 719-726, 871, 935, 1127-1129, 1279-1280, 1283, 1317, 1393, 1402
 Chennault proposals, 519-526, 540-541, 556-558
 Chinese Government requests, 529-533, 535, 549-555, 569, 577-579, 597, 678-681, 686, 693, 697-698, 721-726, 1127, 1393, 1395
 Continuation of, proposals regarding, 480, 482, 486, 493, 496-498, 501-502, 506-507, 581, 678-680
 Eisenhower mission to China, proposed, 485
 Military advisers, proposals, 503-504, 519-525, 533, 554-555, 558, 567, 579, 586-588, 600, 608, 677, 680-681, 686, 693, 709-711, 717, 719
 Military airlift for Chinese silver dollars, Chinese Government request for, 784-785, 787
 Military equipment lost to the Chinese Communists, 473, 476-478, 504-505, 579, 608, 709, 715
 Military grant (\$125 million) under China Aid Act, implementation of, 477-478, 480, 488-490, 498, 500, 502, 505-508, 512-514, 517, 524, 531-534, 554, 576-577, 581, 589, 594-597, 615, 657, 679, 693, 717, 769*n*
 Slowdown and delay in deliveries, 486-487, 489, 495, 498-500, 506
 Surplus property sales of military equipment, 483, 486, 501, 596-597

- Military assistance to the Chinese Government—Continued
- Surplus tanks, attempts by the Chinese Government to purchase, 472-473, 475, 501-503, 511-512, 515-517, 527-528
- Suspension of shipments of military equipment, proposals regarding, 478, 480, 482-483, 486-487, 489, 498-500, 506
- Termination of, proposals regarding, 480, 487, 489, 498, 506
- U.S. armed forces, proposals regarding utilization of, 483, 608, 627
- U.S. policy considerations, 479-480, 482-483, 485-487, 543-544, 561-576, 598, 1283, 1317
- Wedemeyer visit to China, proposed, 483-484
- Military situation in China, 2-3, 112-113, 336, 339, 346, 369, 374, 398, 413-414, 473-479, 481-482, 487, 490-492, 502-504, 515, 522, 525-526, 541-571 *passim*, 578-579, 584, 588, 590-593, 598-600, 608, 616, 626-628, 640-641, 645-649, 658, 662-663, 665, 678-680, 682, 688-689, 692, 702-703, 707-710, 712-716, 721-724, 732-733, 761, 775, 890, 933, 1039, 1061, 1128, 1155, 1204, 1220-1221, 1242, 1244-1245, 1270, 1316, 1353-1354, 1402
- Millar, Sir Frederic Hoyer, 852
- Mitchell, Col. Ralph J., 1000-1001
- Mokrejs, John, 1281
- Moline, Edwin G., 1016
- Molotov, V. M., 1370-1371, 1406
- Mongolian People's Republic (Outer Mongolia) : Dalai Lama's influence, 1066, 1072; recognition of Chinese Communists, 111; Soviet influence, 385, 393, 535, 956, 1058, 1065; United Nations membership, question of, 1066
- Montini, Giovanni B., 128
- Moreland, Allen B., 544-546
- Morland, Oscar C., 854, 866
- Most-favored-nation treatment, 1051-1052
- Moyer, Raymond T., 289, 373, 403, 424, 617*n*, 619, 652, 661, 665
- Muccio, John J., 80-81, 144-145, 196, 490, 854-856, 885, 1167-1171, 1186
- Murphy, J. J., 1351
- Mutual Assistance Program (MAP), 233, 719
- Mutual Defense Assistance Act of 1949, 551*n*, 556, 568, 570-571, 574-575, 698-699, 719*n*, 721, 725
- Myint, Thein, 162
- Nair, V. M. M., 1064-1065
- Nason, John B., 429, 433-434, 638-639, 670
- National Advisory Council (U.S.), 795, 966
- National City Bank of New York, 771, 775, 777, 797, 807, 1259, 1286, 1337, 1346, 1350, 1352
- National Foreign Trade Council, 1317
- National Security Act of 1947, 1183
- National Security Council: Chennault plan, 541; Shanghai, U.S. role in the defense of, 1210, 1214-1215; Taiwan, strategic importance of, 261, 284, 307; Taiwan, U.S. policy regarding, 270-271, 279, 281-283, 288, 290-298, 305-306, 310, 324, 335-337, 340, 345-347, 356-358, 369, 371-372, 374-376, 378-379, 392-397, 401, 404, 462-464, 468, 484, 646; trade with Communist-occupied China, U.S. policy regarding, 826-834, 842-844, 851, 871, 878, 889-896, 937, 998, 1012, 1022; U.S. military assistance for the Chinese Government, 479-480, 482-483, 486-490, 506, 556, 581; U.S. naval forces at Tsingtao, withdrawal of, 265-266, 1198-1199, 1201-1202, 1209; U.S. policy toward Asia, 556*n*, 558, 561, 589, 1380-1381, 1389; U.S. policy toward China, 474-475, 484-485, 491-495, 499, 507-508, 533-535, 630, 827-828, 832; U.S. policy toward the Chinese Communists, 540
- Naval assistance to the Chinese Government: Chinese Government request for, 1127-1129; naval training, suspension of, 265-266; petroleum supplies for Chinese navy, 589-590
- Navy, U.S. Department of the, 589-590, 594, 1132, 1134, 1183, 1195-1196, 1198-1199, 1202, 1204-1205, 1219, 1228, 1387
- Near and Middle East, 52, 67
- Nehru, Jawaharlal, 9, 28, 44, 51, 54, 100, 110, 117, 123-125, 127-128, 134, 143, 147, 165-166, 179, 182, 196, 198-199, 227, 254, 360, 1074*n*, 1082-1083, 1092, 1097
- Nelson, Donald M., 1370
- Nepal: Dalai Lama's influence on, 1066; effect of a Chinese Communist victory on, 9, 1083, 1094; interest of India in, 178-179, 1083, 1087, 1089; mission in Tibet, 1067; relations with Tibet, 1067, 1094
- Neri, Felino, 32, 119, 126-127, 129, 167, 197, 434-435
- Netherlands (*see also under* Chinese Communists: Petroleum products, etc., Recognition question, *and* U.S., export controls, etc.), 5, 360*n*, 432
- New Zealand (*see also under* Chinese Communists: Recognition question), 360*n*, 432, 822
- Ng Philip. *See* Huang, Philip.
- Nicholson, Donald L., 812-813

- Nitze, Paul H., 506n
 Noel-Baker, Philip, 200n
 Norstad, Lt. Gen. Lauris, 463
 North Atlantic treaty countries, 13, 15-17, 19, 21, 24, 26-27, 60-61, 81, 163, 517
 North China People's Government. *See under* Chinese Communists.
 Northwest Airlines: Business with the Chinese Communists, question of, 145, 1259, 1350; evacuation flights from Shanghai, proposed, 1285, 1299-1300, 1304, 1314, 1323; U.S. policy regarding air agreements with Communist China, 892
 Norway (*see also under* Chinese Communists: Recognition question), 258
 O'Day, C. C., 607
 Office for European Economic Cooperation, 848, 850
 Office of Special Representative in Europe, 881-882
 Office of the Foreign Liquidation Commissioner, 514, 768
 Ogburn, Charlton, Jr., 160-162
 Okinawa, strategic importance of, 264-265, 467
 Olive, William M., 252
 Open Door policy, 1210-1211
 Orchard, W. W., 1351-1352
 Osburn, David L., 333
 O'Shaughnessy, Elim, 48-49
 Osman, Bator, 1049
 O'Sullivan, James L., 88, 160n
 Pacific pact between China, Korea, and the Philippines. *See* Southeast Asia Union.
 Pai Chung-hsi (Pai Tsung-hsi), Gen., 112, 169-170, 400, 408, 410, 413, 522, 526, 541-542, 544, 547, 549-550, 553, 555, 578-579, 593, 702, 712, 715-717, 720, 724-727, 753, 871, 1037, 1155
 Pakistan (*see also under* Chinese Communists: Recognition question): British policy toward, 55-56; effect of a Chinese Communist victory in China, 8-10, 822; Far Eastern Commission, member of, 360n; U.S. policy toward, 160, 162; U.S. policy toward Taiwan, 432; Viet-Nam, question regarding recognition of, 241
 Pan American Airways, 517, 1300, 1323, 1362
 Pandit, Mme. Vijaya Lakshmi, 196, 210, 213-214, 221
 Panikkar, K. M., 28, 43-44, 46, 70-71, 74, 77, 123, 127, 134, 138, 162, 177-179, 1082, 1092, 1097
 Pao Erh-han. *See* Burhan.
 Parker, Paul C., 308-309, 311, 314-315, 327-328, 330, 633-634, 637, 737-765 *passim*, 773-774, 778, 789, 801, 920-921, 930
 Parodi, Alexandre, 21, 43, 133
 Parsons, James G., 1083
 Patel, Sardar, 165-167, 179
 Patterson, Bradley, 168n
 Patterson, Robert, 485
 Pattison, A. C., Fed., Inc., 1304
 Pattison, A. P., and Company, 1131-1133, 1139, 1141-1142, 1144, 1146, 1149-1150, 1154, 1157, 1164, 1168, 1171, 1185
 Paxton, J. Hall, 1039n, 1041-1044, 1046, 1049-1050, 1052-1058
 Peace negotiations between the Chinese Communists and the Chinese Government, 306, 309, 314, 316, 324, 337-338, 369, 481-482, 508, 526-527, 607n, 609, 633-634, 636, 663, 678, 700-701, 736, 741, 745-747, 750, 753-755, 1044, 1200, 1238
 Peace Preservation Corps, 1208
 Pearson, Lester, 145-146
 Peaslee, Alexander L., 1284
 Pee, Brig. Gen. Peter T. K., 414
 Pei Tsuyee, 745, 754, 763, 778
 Peng Meng-chi, Gen., 283, 301, 344-345, 352, 424, 431, 441, 446
 Penghu. *See* Pescadore Islands.
 People's Liberation Army, 543, 1279
 People's Political Council, 335, 431, 447-450
 People's Republic of China, establishment of, 93-94
 Pepper, Claude D., 953
 Pereira, Pedro Theotanio, 187-188
 Perkins, George W., 163-164
 Perkins, Troy L., 106, 168-170, 589, 1312, 1314
 Pescadore Islands (Penghu): Chinese Government military establishment on, 352; U.S. policy regarding, 271-272, 274, 282, 356-357, 359-362, 369, 371, 377, 392-393, 417
 Petersen, E. E., 1350
 Philippines (*see also under* Chinese Communists: Recognition question and U.S. export controls, etc., and *under* Evacuation of Americans from China: Safehavens, etc.): Chinese Communist policy toward, 255, 342; Chinese refugees, 343; defense of, 229, 435; Far Eastern Commission, member of, 360n; Joint U.S.-Philippine Defense Board, 432; Mutual Defense Assistance Program, discussions concerning, 451n; U.S. policy toward, 162, 378, 393, 570, 726
 Pibul Songgram (Phibun), Field Marshal Luang, 22, 140-141, 168n, 238
 Pickering, J. V., 1351

- Pierotti, Roland, 1312
 Pignon, Léon M., 136, 164
 Point Four Program, 182, 294, 305, 465, 647
 Poland, 97, 244, 992
 Policy Planning Staff of the Department of State, recommendations concerning U.S. policy toward Taiwan, 356-364
 Political Consultative Conference (1946), 1408
 Political situation in China, 478-479, 481, 526, 553, 559, 562, 566, 593, 598-600, 636, 649, 689-690, 776, 951
 Port Arthur: Soviet position in, 347, 357; Soviet withdrawal from, 1205, 1207
 Portugal: Chinese Communists, position on recognition of, 25-26 188, 217, 246-247; Communist China and North Korea, position on U.S. export controls for, 836, 850, 854, 863, 880-881, 888-889, 896, 899, 903, 936, 942, 978
 Pote Sarasin, 176, 238
 Potter, John S., Real Estate, 1259
 Presbyterian Missions, 1259
 Protection of American lives and interests in China (*see also under* Chinese Communists), 801, 951, 953, 1183, 1192, 1215-1217, 1219, 1224-1225, 1229, 1231-1235, 1238-1240, 1244, 1250-1252, 1257-1260, 1262, 1265, 1269-1271, 1316, 1330, 1353, 1359
 Quirino, Elpidio, 32, 42, 51, 66, 116, 119, 167, 229, 432, 450-451
 Rajagopalachari, Chakravarti, 1086n
 Rankin, Karl, 207, 391, 555, 1133, 1171, 1175, 1178, 1189, 1353
 Ratnam, 105-106
 Recognition question (*see also under* Chinese Communists): *de facto*, 12, 15-16, 19-20, 22-23, 29-30, 60-61, 78, 99, 103, 109, 118-121, 124-125, 128, 130-133, 135-140, 203, 956, 962; *de jure*, 12, 19-20, 22-23, 29-30, 47, 60, 78, 86, 99, 105, 118, 139-140, 147, 153, 156, 203, 225, 236, 240, 242, 248, 926
 Reconstruction Finance Corporation (RFC), 551, 602, 628, 737, 760-761, 764
 Reed, Charles S., 85-86, 823
 Reed, J. T. S., 1350
 Reuchlin, Jonkheer, O., 131
 Rhee, Syngman, 80-81, 144-145, 196, 1169
 Riberi, Papal Nuncio, 116, 162, 174-175
 Richardson, Hugh Edward, 1081, 1093-1094
 Riehlman, Roy W., 544
 Rinden, Robert W., 401, 407, 1135-1136
 Ringwalt, Arthur R., 56, 138-139
 Roberts, Frank, 134, 175-176, 1083, 1091-1092, 1094-1095
 Rocheta, Manuel, 246-247
 Rogers, Cyril, 327
 Romulo, Carlos P., 66
 Roosevelt, Franklin D., 207n, 343n, 1370
 Roosevelt, Theodore, 358
 Roschin, N. V., 493n, 959, 1056, 1401-1403
 Rosse, G. M., 1312n
 Rossi, Italian Consul General, 1188, 1190
 Rusk, Dean, 160n, 258, 346, 347n, 368, 463, 465, 467, 509-511, 519-523, 561, 573, 581, 692, 694-696, 716-718, 720-723, 728, 870, 1024, 1365n
 Rylander, Capt. F. H., 1168, 1170-1171
 Ryukyu Islands: Status of, 160, 262; U.S. policy toward, 378, 393
 Saint Louis, George W., 653-654, 665, 668, 670
 Salientes, Lt. Col., 435
 Sampson, H. T., 665
 Sandifer, Durward, 346
 San Jevi, 1082
 Sarawak, 8
 Satterthwaite, Joseph C., 81, 88, 255
 Sawyer, Charles, 490, 505, 851, 857n, 878, 890
 Scarlett, Peter, W. S. Y., 118, 139n, 187, 193-194, 203, 215, 220-221, 224, 1115, 1118
 Schelke, C. V., 1350, 1352
 Schermerhorn, A. C., 1312n
 Schuman, Robert; 19, 29, 43, 88-91, 97, 123, 150, 169-170, 183, 189-190, 226, 236-237, 240, 436, 695
 Scott, E. J. F., 1091
 Scott, Robert H., 240-241
 Scott, Winfield Harrison, 782, 1261
 Scotten, Robert M., 204
 Scurr, Henry, 1136-1137
 Sebald, William J., 105-106, 263, 278, 544n, 974n, 1000-1001
 Seitz, H. F., 1004-1006, 1031, 1034, 1312n
 Selby, Ralph, 1083
 Sen, B. R., 31
 Seventh Day Adventists, 1259
 Shanghai: Chinese Communist occupation of, 1256-1262, 1266, 1283, 1293; labor union problems affecting American companies, 1254, 1262-1263, 1275, 1279, 1298-1299, 1301, 1304, 1314, 1337-1338, 1342-1343, 1345, 1350-1353; relief of, British proposal for, 52, 1308, 1334-1335, 1360-1362; U.S. defense of, proposals regarding, 1210-1212, 1214-1215
 Shanghai American Chamber of Commerce. *See* American Chamber of Commerce (Shanghai).
 Shanghai Chamber in New York, 1317
Shanghai Evening Post, 1259
Shanghai Post and Mercury, 1262

- Shanghai Power Company, 1008-1010, 1013, 1026, 1259, 1266, 1304, 1351
 Shanghai Telephone Company, 1259, 1351
 Shaw, A. A., 1351
 Shaw, John F., 1312-1316
 Shaw, L. K. (Hsiao Li-kwun), 1054
 Shell Oil Company, 1002-1004, 1006, 1011-1014, 1019, 1021, 1030, 1163
 Shen, H. J., 743, 749, 755
 Shen, T. H., 620, 661, 665
 Sheng Shih-tsai (Hsiung Hsi-hui), 1038, 1048, 1050
 Sherman, Adm. Forrest, 463-464, 467
 Shun Keng-tao, 767
 Sieling & Jarvis of New York, 1027
 Sikkim, 1066, 1079, 1085
 Singapore (*see also under* Chinese Communists: U.S. export controls, etc.), 7-8, 75-76
 Sinkiang: Chinese Communist control over, question of, 11, 1039, 1045-1047, 1055, 1062-1063; Dalai Lama's influence in, 1072; Indian interest in, 143; Soviet activities and interest in, 11, 113, 292, 295, 385, 393, 493, 509, 535, 963, 1038, 1042, 1046-1047; Soviet trade and aviation rights in, U.S. interest in, 1037-1063; U.S. consulate, closure of, 1061, 1063; U.S. policy regarding, 1072
 Skylstad, R. I. B., 250-251
 Smith, Florence, 1312*n*
 Smith, H. Alexander, 173-174, 205-208
 Smith, Russel, 1281
 Smith, William C., 98, 192, 231, 247, 252, 996-999
 Smyth, Robert L., 92, 353, 615, 765*n*, 784, 909-911, 916-917, 919-922, 928, 930, 933, 940, 943-945, 954, 969-970, 982-983, 991, 1003-1004, 1010-1011, 1014, 1342
 Snyder, John W., 710, 742, 775-776
 Soong, John, 1351
 Soong, T. V., 311-313, 315-316, 319-320, 414, 487, 743, 1096, 1371
 Soongs, 701, 775
 Souers, Adm. Sidney W., 261, 270-271, 281-284, 288, 290, 294, 296-297, 307, 310, 335, 347, 369, 374, 376, 392, 460, 474, 479, 484-486, 488, 491-492, 507, 533, 540, 556, 826, 834, 890, 1022, 1198, 1209, 1214-1215
 Soule, Brig. Gen. Robert H., 181, 192, 231, 477, 1168, 1223, 1363
 Southeast Asia, 56, 67, 71, 77-78, 216, 218, 232, 255, 342, 817, 820-822, 871, 875
 Southeast Asia Union, 51, 70, 197
 Southern Baptist Mission, 1259
 Soviet Union (*see also Soviet subheadings under specific subjects*): Atomic bomb, production of, 582; Far Eastern Commission, member of, 360*n*; General Agreement on Tariffs and Trade, nonsignatory of, Soviet Union—Continued
 941; lubricants, efforts to obtain, 826; relations with Chinese Nationalist Government, 569, 957-960, 1047-1048, 1401-1403, 1406-1407; U.N. Security Council, member of, 258; U.S. recognition of, 68
 Spain, 23
 Sparks, Joseph S., 31
 Spender, Percy C., 260
 Spiegel, Harold R., 803-804
 Sproul, Robert Gordon, 510
 Sprouse, Philip D.: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1122-1125, 1127-1130, 1153, 1159-1160; Chinese Communist efforts to revive trade with Japan, 973; Chinese Communist treatment of U.S. consular offices, 922, 929; evacuation of Americans from China, 1273-1274, 1312, 1314-1316; petroleum supplies for Communist China and North Korea, 1024-1029, 1031; recognition of Chinese Communists, question of, 1, 2*n*, 5-6, 11*n*, 12*n*, 31, 36-40, 131, 149-151, 160*n*, 165, 184-188, 191-192, 199-200, 208, 230-231, 242, 244-247, 248*n*; Taiwan question, 301-302, 368, 425-426, 433, 435-437, 467-468, 470; Tibet, status of, 1065, 1088, 1095-1096; U.S. economic and financial assistance to the Chinese Government, 641-642, 646, 649, 701, 706, 716, 789; U.S. military assistance to the Chinese Government, 498-499, 507, 511-513, 520-521, 523-524, 536*n*, 558-561, 576-577, 581, 589, 594, 597; U.S. naval forces at Tsingtao, withdrawal of, 1204-1206; U.S. policy toward China, 519; U.S. trade policy toward Communist-occupied China, 817*n*, 821*n*, 823-826, 834-837, 841-842, 849, 870
 SS *Flying Arrow*, 1186-1187, 1189
 SS *Flying Clipper*, 88-89, 1132, 1134-1141, 1143-1148
 SS *Flying Cloud*, 1147-1148, 1154, 1157, 1163-1173, 1175, 1177, 1179, 1181
 SS *Flying Independent*, 88, 1130, 1132-1141, 1143-1148, 1183, 1350
 SS *Flying Trader*, 1135, 1139-1143, 1145-1146, 1148-1150, 1152-1154, 1156
 SS *General Anderson*, 1197
 SS *General Gordon*. *See under* Evacuation of Americans from China.
 SS *Gripsholm*, 1298
 SS *Hanyang*, 916-917
 SS *Island Mail*, 1257
 SS *President Cleveland*, 1258, 1276
 SS *President Fillmore*, 907-910
 SS *President Wilson*, 1244, 1246, 1248, 1250, 1276, 1285, 1296, 1304, 1307-1308

- SS *Sir John Franklin*, 1171-1182, 1184-1185, 1187
- Stafford, William B., 1312*n*
- Stalin, Iosif Vissarionovich, 68, 232, 255*n*, 1370, 1401-1402, 1406
- Standard Oil Company of California, 843
- Standard-Vacuum Oil Company, 792, 952, 954, 1002-1007, 1011-1014, 1016, 1019-1021, 1030-1031, 1033-1036, 1163, 1259, 1262, 1281, 1286, 1338, 1342, 1351-1352
- Stanton, Edwin F., 62-63, 140-141, 176, 212, 216, 231-233, 238-239
- Stassen, Harold E., 156, 158
- Steere, Loyd V., 98-99, 125-126, 135-136, 140
- Steinhardt, Laurence A., 18, 145-146
- Stevenson, Sir Ralph, 1-2, 15-17, 19-20, 22, 25, 28, 52-53, 89, 104-105, 118, 134, 147-148, 641, 919*n*, 1084, 1248-1249, 1271, 1274, 1315, 1335
- Stikker, D. U., 234
- Stillman, Charles, 664
- Stilwell, Lt. Gen. Joseph W., 462, 585, 1372, 1378, 1381
- Stockpiling Act, 587
- Stockpiling of strategic materials, proposals regarding Chinese contribution to, 587, 681, 683, 686, 689-690
- Stokes, William N., 216
- Strang, Sir William, 70, 84-85, 119, 257-258
- Stratemeyer, Lt. Gen. George E., 419
- Strong, Gordon, 795
- Strong, Robert C., 146-147, 400-402, 404-405, 407-408, 419, 471, 541, 546-551, 556, 578-579, 615, 691, 692, 697-698, 814-815, 1131-1133, 1135-1136, 1138, 1140, 1142-1148, 1153, 1155, 1161-1164, 1167, 1171-1173, 1175, 1179-1181, 1184-1185, 1191-1197, 1200-1203, 1207-1209, 1232-1233, 1253-1255, 1321-1346 *passim*, 1361
- Stryker, Gerald, 154-160, 168*n*
- Stuart, Arthur W., 789, 920
- Stuart, John Leighton: Blockade of Communist-controlled ports by the Chinese Government, 1105-1107, 1120-1121, 1126, 1315-1316; China White Paper, 1371, 1385-1386, 1390, 1400; Chinese Communist bypassing of U.S. consular offices, 911*n*, 917-918, 940; Chinese Communist efforts to revive trade with Japan, 984-985; Chinese Communist regulations regarding disposition of foreign currency, 781-782, 786-788, 798-800; consultations in Washington, 18, 511, 708, 710, 712, 1368-1369, 1386, 1390, 1400; economic and financial situation in China, 736, 740, 744, 766-767, 798, 1316; evacuation of Americans from China, 1213-1217, 1219-1223, 1225-1229, 1234-1237, 1240-1241, 1243, 1247-1249, 1267-1271, 1275-1276, 1293, 1305, 1312, 1315; General Agreement on Tariffs and Trade, Chinese Communist abrogation of, 949; military situation in China, 474, 476-477, 502-503, 1316; petroleum supplies for Communist China and North Korea, 1012-1013; recognition of Chinese Communists, question of, 12-17, 19-21, 23-25, 27-28, 30-31, 35-36, 40, 44-49, 52-54, 160*n*, 581; Sinkiang, Sino-Soviet negotiations regarding, 1037-1040, 1044-1046, 1048, 1051, 1054-1055, 1057; Taiwan question, 279, 287, 297-300, 302-304, 306, 311-312, 320, 351, 412-414; Tibet, status of, 1078; U.S. Commission to China, proposed, 510; U.S. economic and financial assistance to the Chinese Government, 615, 618, 622-623, 632-634, 641, 643, 654-658, 663-664, 705-708, 710, 712, 729-733, 750, 752-754, 757-759, 762-765; U.S. military assistance to the Chinese Government, 489, 491, 495, 498-499, 501-502, 580; U.S. military equipment diverted to Taiwan, disposition of, 275; U.S. naval forces at Tsingtao, withdrawal of, 1194, 1200, 1204-1207; U.S. policy toward China, 511, 524-525, 1397, 1401-1407
- Stuart, Wallace W., 36-37, 558*n*, 1204
- Sullivan, Walter, 1166, 1169, 1171
- Sun Fo, 300, 308, 311, 664, 702, 736*n*, 745, 1040, 1047-1048, 1050-1051, 1053*n*, 1235
- Sun Li-jen, Gen., 263, 268, 283, 297-298, 300-301, 308, 310, 312-313, 327, 331, 333-335, 338, 345, 352-354, 363-365, 390-391, 402-403, 405-406, 408, 410, 413-414, 422-424, 429, 441, 446, 457, 471, 585, 720-721
- Sun Yat-sen, 69, 780
- Sun Yat-sen, Mme., 123, 134, 1062
- Sun Yueh-chi, 925*n*
- Supreme Commander, Allied Powers, Japan (SCAP) (*see also under* Chinese Communists: Trade with Japan *and* U.S. export controls, etc., *and under* Taiwan), 277, 287, 321, 355, 375, 403-404, 426, 428, 468, 613, 637, 665, 684, 830-831, 834, 843, 924, 942
- Swank, Emory C., 965-967
- Sweden, 250, 259
- Swett, Trevor W., 503-505
- Switzerland, 209-210
- Taiwan (*see also under* Evacuation of Americans from China): Ammunition supplies on, 190, 713

Taiwan—Continued

- Australian position regarding, 360, 432
- Autonomy, proposals for, 263, 267, 269, 272, 278, 287, 322, 324, 361, 363, 369, 383, 399, 452; U.S. policy regarding, 274-275, 281-282, 303, 305
- Bank of Taiwan, 308, 327, 339, 758, 815
- British consul at Tamsui, retention of, 240, 242, 248, 342
- British policy regarding, 219, 224-225, 248, 302, 341-343, 349, 389-390, 393, 425-426, 432, 435-438, 442-443, 463, 467-469, 589, 816, 900
- British trade with, 818
- Chiang Kai-shek: Gold and monetary reserves transferred to Taiwan, control over, 206, 293, 356, 583, 677, 703, 718-719, 725, 753, 758, 762, 785, 788, 791; political and military authority, reestablishment of, 283, 298, 300, 309, 311-312, 315, 319, 327, 338, 346, 351-352, 354, 363, 365-366, 370, 380-381, 389, 404-406, 408, 411, 413, 419, 421, 441, 445-446, 448-449, 451-453, 471, 482, 522-523, 585, 664, 706, 720, 726, 753-754, 1316, 1405-1406; U.S. policy toward Taiwan, 395-424 *passim*, 429, 433-434, 436, 443, 447, 454, 458-459, 463, 1405; withdrawal to Taiwan, 3, 268-269, 272-273, 279, 328, 331, 333, 336, 339, 342, 354, 381, 404, 527, 549, 702, 706, 1103
- Chinese Air Force: Aviation gasoline needs, 1018; establishment of headquarters on Taiwan, 266, 339; loyalty to Chiang Kai-shek, 280, 562, 564, 1120; operations from Taiwan, 563-564, 1101, 1159-1162, 1306, 1359; transfer from mainland to Taiwan, 464
- Chinese Communist attitude toward, 303, 351, 353, 382-383, 389
- Chinese Communist conquest of, possibility of, 261, 353, 357-359, 384, 390-391, 393, 416, 425, 431-433, 436-438, 442, 561, 904, 1128, 1155, 1215, 1355
- Chinese Government: Appeal for U.S. support, 301; gold and monetary reserves, 206, 293, 309, 339, 343, 356, 394, 414, 441, 583, 587-588, 677, 685, 713, 735, 740, 756, 758, 762, 783, 785, 788, 790, 796, 803, 814-815; transfer from mainland to, 664
- Chinese Navy: Establishment of headquarters on Taiwan, 266; loyalty to Chiang Kai-shek, 280; transfer of training units to Taiwan, 1199

Taiwan—Continued

- Communist activities and influence, 279-280, 287, 323, 331, 383-385, 389
- Defense of, questions regarding, 229, 324-325, 332-335, 339, 343-346, 348, 352-354, 366, 370, 389-390, 394, 398, 400-402, 404-408, 413, 421-423, 429-431, 436-437, 453-454, 457-458, 460-461, 463, 584-585, 600, 702, 722, 756, 1215
- Economic and financial situation, 321-322, 324-325, 339-340, 347, 351, 354, 366-370, 394, 406-409, 414, 417, 428-429, 441, 452-454, 470, 694
- Economic Cooperation Administration program, 267, 270, 278, 287-329 *passim*, 335-338, 340, 348, 354, 356, 369-375, 380, 385, 388, 395, 397, 410, 417-418, 429, 432, 434, 452, 454-455, 457, 462, 584, 601, 606, 613-614, 626, 631, 644, 648, 656, 665-666, 673, 684, 688-689, 691, 697, 1359
- Evacuation of Chinese Government offices to, 266, 599
- Far East Air Force staff team, visit to Taiwan, 426-428
- Far Eastern Commission trusteeship, proposed, 323
- Formosan Democratic Independent Party, 334
- Formosan Re-emancipation League, 269, 276-277, 280, 287, 301, 322-323, 389, 391-392, 406
- French interest in, 269-270, 436
- Independence, proposals regarding, 269-270, 272, 287, 296, 303, 305-306, 323-324, 326, 334, 339, 346, 350, 362, 382-384, 389, 392, 406, 452, 454
- Indian attitude toward, 360, 363
- Joint Commission for Rural Reconstruction projects, 290, 302, 308-309, 311, 314, 316-318, 320, 326, 328-329, 336, 338, 355, 370-373, 380, 385, 388, 395, 410, 418, 429, 602, 617, 629, 644, 661, 688, 691
- Joint Sino-American administration, proposed, 381, 400, 408, 753
- Kuomintang role, 398-399, 403-406, 420-421, 431, 452-454
- Martial law, proclamation of, 337
- Military situation, 352-354, 356, 359, 364-365, 368, 371, 374, 380-381, 385, 389-390, 410, 417-418, 422-424, 458, 530
- Peace Preservation Corps, 431
- Petroleum deliveries to, 1016, 1018
- Philippine attitude toward, 229, 305, 348, 360-361, 363, 432, 434-435, 447, 450-451

Taiwan—Continued

- Political situation, 272, 274, 283, 290, 309, 324-325, 330-331, 339, 347, 351-352, 366-368, 370, 378-379, 381-388, 391-392, 396, 399, 408-409, 415, 428-429, 431, 443-444, 446-453, 458, 470-471, 1373
- Refugees from the mainland, influx of, 273-275, 282, 289, 292, 297, 316-318, 323-324, 328, 332-333, 336, 338-340, 351, 357, 366, 369-370, 388, 394, 396, 401-402, 407, 409, 417, 454, 466, 484, 629
- Return to mainland of Chinese Government forces, political objective of, 457, 470, 629
- Reversion to Japan, proposed, 287
- Shanghai petroleum stocks, transfer to Taiwan of, 1010
- Status of, 82, 84, 161, 173-174, 207, 233, 269-271, 328, 336, 342-343, 349-350, 354, 357, 359, 361-362, 366, 371, 382, 389-391, 453, 1359, 1404; position of the Chinese Government, 304-305, 389
- Strategic importance of, 261-262, 266-267, 271, 279, 284-286, 302, 307-308, 315, 319, 325, 337, 341, 348, 353, 357, 370-372, 375-379, 388, 393, 396, 408, 416, 436, 443, 463-467, 613, 691, 697, 1359
- Supreme Commander, Allied Powers, Japan (SCAP), proposals for administration of Taiwan by, 384-386, 427, 454-455
- Thirteenth Air Force Group, presence of, 1213
- Trade, 355-356, 367, 375, 410, 966, 978
- United Nations control during interim period, proposed, 303, 305-306
- United Nations intervention, proposed, 384
- United Nations plebiscite, proposed, 266, 346, 349-350, 357, 361, 389
- United Nations trusteeship, proposed, 207, 263, 287, 296, 333, 348-350, 362, 389, 447, 452, 455, 580, 1404-1405
- U.S. diplomatic representation, 289, 292, 326
- U.S. economic assistance for, 289, 292, 302, 310-311, 314-316, 318-320, 324-327, 332, 340, 344, 347-348, 356, 369-370, 394-396, 401-406, 418, 421-422, 425, 428-429, 434, 441, 445, 452-454, 457-459, 462, 470, 602-603, 605, 607, 629, 631-632, 634-635, 638, 651, 691
- U.S. Embassy, transfer to Taiwan of, 462
- U.S. export controls, 836, 854, 882, 889, 900, 902-904

Taiwan—Continued

- U.S. military advisers, Chinese Government request for, 394, 398, 410, 418-421, 430-431, 434, 446, 458-459, 461-463, 465, 467-468, 1101
- U.S. military aid supplies for China, diversion to Taiwan of, 266, 276, 478, 488, 491, 495, 498-501, 517, 1359
- U.S. military and naval bases, proposals regarding, 265-266, 273, 286, 291-293, 315, 317, 327, 350, 354, 369, 385, 395, 408, 484
- U.S. military assistance, question of, 305-306, 336, 394-395, 398-399, 410, 414, 416, 418, 421, 425-426, 428, 430, 435-442, 446-447, 450, 452, 457-465, 468, 487, 570, 679, 1405
- U.S. military equipment, disposal of, 275-277, 394, 414
- U.S. military intervention of occupation, proposals regarding, 207, 267, 272, 291-293, 296, 303, 305, 307-308, 315, 325-327, 340, 347-348, 357, 359-360, 363, 371, 379-382, 384, 386, 395, 399-402, 421, 429, 432, 434, 436, 447, 454-455, 457, 463-465, 484, 1404-1405
- U.S. policy toward, 229, 233, 461-471, 484, 646, 648, 691, 697, 1204, 1358-1359, 1404-1405
- U.S. trusteeship, proposed, 287, 333
- Wedemeyer visit to, proposed, 483-484
- White, J. G., Engineering Corporation, activities of, 309, 316-318, 326-329, 372-373, 375, 388, 410, 424, 429-430, 648, 675, 688
- Tambu, Charles, 197
- Tan Kah-kee, 75
- Tan Shao-hwa, 512-513, 1368-1369
- Tang En-po, Gen., 410, 482, 636-637
- Tang Tsung, 413
- Tanna Tuva, 956
- Tao Chih-yu, 1039, 1041, 1055
- Tariff Act of 1930, 953, 961
- Taymans, Roger, 230-231
- Teeling, William Burke, 343
- Terry, Carroll M., 1354, 1358
- Texas Oil Company, 954, 1002-1004, 1008, 1014, 1024-1026, 1259, 1342
- Thailand (*see also under* Chinese Communists: Recognition question), 5, 10-11, 22, 86, 162, 176, 178, 232, 239, 432, 465, 520, 570, 572-574, 584, 675, 723-724, 820, 860, 951
- Thomas, Lowell, 1080
- Thompson, Sir Godfrey, 238
- Thompson, J. J., 1350
- Thorp, Willard, 506n, 768-770, 998-999
- Tibet: British policy toward, 1067, 1074, 1080-1086, 1089-1096; Chinese Government mission in, expulsion of, 1079-1080, 1084; Chinese sovereignty and suzerainty over, 1065-

Tibet—Continued

- 1067, 1069, 1079-1080, 1082, 1084, 1086; effect of Chinese Communist victory in China on, 9, 11, 74, 114, 231, 523, 1064-1066, 1069, 1072, 1076, 1081-1089, 1091-1097; foreign missions, 1067, 1079; gold, efforts to purchase, 1064-1065, 1067-1069, 1073, 1075, 1077-1078; independence of, question of, 1065-1067, 1070-1071, 1081, 1084-1089, 1092, 1094; Indian policy toward, 166, 178, 1064-1097 *passim*; Pakistan position, 1090; relations with West China, 1042; Soviet attitude toward, 1092; status of, U.S. policy regarding, 1064-1097; strategic importance of, 1067, 1069, 1075; trade mission to the United States, negotiations with India, 1064-1065, 1067-1068, 1073, 1075, 1077-1078, 1080; trade with the United States, 1071-1072, 1075; United Nations membership, question of, 1071, 1088-1092, 1095-1097; U.S. aid, request for, 1081, 1092, 1095; U.S. loan, request for, 1068-1069, 1077; U.S. recognition of Chinese sovereignty over, 1065, 1069-1070, 1072
- Tikhvinsky, Soviet Consul, 94
- Tito, Marshal Josip Broz, 36-38, 158, 193, 206, 888, 992
- Tobacco Products Company, 1259
- Tomlinson, Frank S., 846, 898-899, 906
- Tong, Hollington, 398, 444, 1120
- Trading with Enemy Act (1917), 771, 774-776
- Treasury, U.S. Department of, 489-490, 513, 595, 670, 737-766 *passim*, 771, 773-776, 778, 781*n*, 789-790, 795, 807, 809-811, 813, 815, 844, 911-912, 920, 925, 927, 930-932, 936, 952-953, 966-967, 1068
- Treaties and agreements in force between the United States and China, 169, 171-172
- Treaties, conventions, agreements, etc.:
- Agreement between the United States and China for the sale of certain surplus war property (1946), 172, 483, 768*n*; supplemental agreement (1948), 768*n*
 - Agreement between the United States and China providing for relief assistance to China (1947), 172, 621*n*
 - Agreement between the United States and China providing for the establishment of a joint commission for rural reconstruction in China (1948), 172
 - Agreement between the United States and China relating to claims arising from actions of U.S. military forces in China (1948), 172

Treaties, conventions, etc.—Continued

- Agreement between the United States and China relating to exemption from duty of the effects of diplomatic and consular officers (1930), 172
- Agreement between the United States and China relating to financial aid to China (1942), 172
- Agreement between the United States and China relating to the disposition of lend-lease supplies (1946), 172
- Agreement between the United States and China relating to the establishment of the United States Educational Foundation in China (1947), 172
- Agreement between the United States and China relating to the presence of the U.S. Air Force in China (1947), 172
- Agreement between the United States and China relating to the transfer of U.S. naval vessels and equipment to the Chinese Government (1947), 172
- Agreement for the repression of trade in white women (1904), 171
- Air transit agreement between the United States and China (1946), 172
- Arbitration treaty between the United States and China (1930), 172
- Arrangement relative to the repression of the circulation of obscene publications (1910), 171
- Brussels Pact (1948), 230
- Cairo Declaration (1943), 171, 207, 271, 305, 343, 346, 349-350, 357, 361-362, 387, 400, 433, 453
- Convention for promoting safety of life at sea (1929), 171
- Convention for the formation of an international union for the publication of customs tariffs (1890), 171
- Convention for the international exchange of official documents (1886), 171
- Convention for the pacific settlement of international disputes and the limitation of the employment of force (1907), 171
- Convention on international civil aviation (1944), 171
- Convention to suppress slave trade (1926), 171
- Conventions regulating the rules of warfare (1907), 172
- Dollar credit arrangement between the United States and China for the purchase by China of surplus property abroad (1946), 172

- Treaties, conventions, etc.—Continued
- Economic aid agreement between the United States and China (1948), 172, 638, 652; amendment of, *Mar. 31, 632-635*
- Economic aid agreement between the United States and the Republic of Korea (1948), 856
- General Agreement on Tariffs and Trade (1947), 169, 171, 868*n*, 921, 924, 931, 940-966 *passim*, 972*n*, 988, 1109
- International sanitary convention for aerial navigation (1944), 171; protocol (1946), 171
- International telecommunications convention (1932), 171
- Kowloon lease agreement between the United Kingdom and China (1898), 150, 160, 1160
- Lend-lease agreements between the United States and China, 172
- Litvinov agreement between the United States and the Soviet Union (1933), 24, 168
- Nine power treaty (1922), 81, 84, 172
- North Atlantic Pact, *Apr. 4, 13, 377, 393, 516*
- Parcel post convention (1916), 172
- Protocol amending the agreements, conventions, and protocols on narcotic drugs (1922, 1946), 171
- Reciprocal trade agreement between the United States and China, 924, 961
- Sino-American treaty of 1844, 1262, 1294
- Sino-Soviet treaty (1945), 84, 150, 154, 695, 829, 959-960, 1207, 1370-1371, 1398
- Statute of the International Court of Justice (1945), 171
- Treaty between the United States and China relating to the relinquishment of extraterritorial rights in China (1943), 172, 273, 1106, 1210, 1262
- Treaty between Tibet and Nepal (1856), 1094
- Treaty of friendship, navigation, and commerce between the United States and China (1946), 172, 231, 1040-1041, 1045-1047, 1051-1052, 1106, 1219, 1235
- Treaty of peace between China and Japan (1905), 305
- United Nations Charter (1945), 11, 25, 60, 91, 171, 191, 195, 231-232, 236, 361, 1366
- Universal postal convention (1934), 171
- Yalta agreement (1945), 1370-1371, 1394, 1397
- Truman, Harry S.: Blockade of Chinese Communist-controlled ports by the Chinese Government, 1141-1142, 1147-1148, 1150, 1153*n*, 1157; China White Paper, publication of, 1317*n*, 1365-1370, 1372, 1374-1379, 1382, 1385-1393, 1397; Chinese Communist treatment of U.S. Consul General at Mukden, 1355; defense of Hong Kong, question of, 170; evacuation of Americans from China, 1210, 1343*n*, 1355; Mutual Defense Assistance Act of 1949, 721; petroleum supplies for Communist China and North Korea, 1022-1024; Point Four Program, 182, 294, 305, 465*n*, 647; recognition of Chinese Communists, question of, 27, 124, 127-128, 132, 151*n*, 189, 196; Taiwan, U.S. policy toward, 265, 267, 271, 281-282, 290, 293, 295-296, 298, 337, 358, 392, 443, 456-457, 459; Tariff Act of 1930, powers under, 961; trade with Communist China, 826, 834, 850, 870-871, 878, 889-890, 996, 1022; U.S. Commission to China, proposed, 509*n*; U.S. economic and financial assistance for the Chinese Government, 602-606, 610-611, 614, 616-617, 635, 639-640, 643, 660, 680-681, 684, 693, 697, 699, 704-706, 708-712, 714, 721-724, 746-747; U.S. military assistance to the Chinese Government, 478-479, 482-483, 485-490, 498-499, 505-506, 513-514, 551, 568, 570-571, 582, 584, 586-587, 589-591, 693, 698-699, 709; U.S. policy toward China, 474, 484, 491, 499, 584, 1397, 1408-1409; Wedemeyer report on China, 1365-1367
- Tsiang Ting-fu, 256, 258, 696, 972*n*, 1396-1397
- Tsingtao: Chinese Naval Academy, withdrawal from Tsingtao of the, 265, 1199; Chinese Naval Training Corps, withdrawal from Tsingtao of the, 265, 1199; situation in, 614, 643, 1193-1194, 1203-1204, 1207-1208; U.S. naval forces, withdrawal of, 265, 476, 643, 1191-1209, 1236
- Tsui Tswen-ling, 1187-1188
- Tu Yueh-ming, 598
- Tu Yueh-sheng, 346
- Tuan Mu-chieh (Tu Mu-kai), 925*n*
- Tung Ling, 796, 1098-1099, 1102-1103, 1112-1113, 1115-1116, 1292, 1373,
- Turkey, 521
- U So Nyun, 37-41
- Ukrainian Soviet Socialist Republic, 256-258
- Uden, Östen, 250
- Unger, Leonard, 163
- Union of Soviet Socialist Republics. *See* Soviet Union.

- United Kingdom (*see also British sub-headings under specific subjects*): Arms shipments to the Chinese Government, question of, 507, 511-512, 515-516, 523-524, 527-528, 875-876; Chinese financial assets in the United Kingdom, proposals regarding control over, 801-803, 815-816, 960; Far Eastern Commission, member of, 360*n*; military assistance agreement with the United States, discussions concerning, 220; policy toward China, 56-61, 88-90; U.N. Security Council, member of, 258
- United Nations:
- Albanian admission, failure of, 11
 - China question, 3, 90, 143, 510, 695-696, 1212
 - Chinese representation, 50, 55, 61-63, 67, 107, 141, 145, 148, 152, 155, 157-159, 164-165, 168*n*, 176, 183, 189, 696
 - Economic Commission for Asia and the Far East, question of participation by Viet-Nam and North Korea in, 143
 - General Assembly: China question, 55, 61, 66, 84, 94, 112-114; Chinese Government complaint against the Soviet Union, 150, 153-154, 189, 201, 235, 256-257; Chinese representation, 169-170, 183-184, 187, 191, 195, 588, 1383; Hong Kong question, 83; Indonesian membership, question of, 229, 234, 245, 256; Taiwan question, 349-350
 - Interim Commission, 235, 257
 - Italian membership, question of, 163-164
 - Manchurian question, 1365-1366
 - Mongolian People's Republic, question of membership for, 1066
 - Registration of treaties, 1057
 - Security Council: China question, 88, 466; Chinese representation, 60, 66, 91, 99, 163, 183, 229, 254, 256-261, 466, 588; membership, 258, 260; Taiwan question, 272, 432, 1405; veto question, 258-259, 1096, 1405
 - Taiwan question, 161, 296, 305-306, 326, 341-342, 346, 348-349, 361, 371, 378, 387, 389-390, 396-397, 400, 580
 - Tariff Commission (U.S.), 933, 953
 - Tibetan membership, question of, 1071, 1088-1092, 1095-1097
 - Treaty obligations, respect for, 11
 - Trusteeship Council, 348-349, 1405
 - Trusteeship for Manchuria, proposed, 1366
- United Nations Educational, Scientific, and Cultural Organization (UNESCO), 171
- United Nations Relief and Rehabilitation Administration (UNRRA), 621, 677
- U.S. Army Advisory Group in China, 1247
- U.S. Commission to China, proposed, 509-511
- U.S. Information Service, 954
- U.S. Lines, 929, 939
- U.S. policy toward China, 107, 380, 474-475, 484-485, 491-496, 499, 507-511, 518-519, 524-527, 533-535, 558-561, 626-627, 630, 827, 832, 1066, 1181, 1263, 1265, 1365-1366, 1371, 1380-1381, 1385-1386, 1391-1392, 1397, 1401-1403, 1407, 1409
- U.S. Steel Export Company, 950-951
- Urquhart, Robert W., 641, 1360-1361
- Usher, Richard E., 37-40
- Vagnozi, Egidio, 167
- Valdes, Philip H., 1167-1171
- Van Bylandt, Willem F. L., 218
- Van Kleffens, E. N., 199
- Van Putten, James D., 244
- Vandenberg, Arthur H., 1373-1375
- Vaskov, V. V., 959
- Vatican. *See under* Chinese Communists: Recognition question.
- Viet Minh and Viet-Nam. *See under* French Indochina.
- Vincent, John Carter, 209-210
- Vyshinsky, Andrei Yanuaryevich, 27, 29
- Wah Chang Corporation, 993-994
- Walsh, Bishop James E., 116, 162
- Wan Waithayakon, Prince, 39, 41, 46, 176
- Wang Chen-chang, Gen., 449
- Wang Ching-wei, 559, 1121
- Wang Ping-nan, 126
- Wang Shih-chieh, 304-305, 332, 336, 365, 367-368, 379-381, 398-399, 403, 413, 424, 445, 580, 959, 1121, 1341, 1399
- Wang Shou-chin, 512
- Wang Yung-wu, 730
- War between the United States and the Soviet Union, possibility of, 539, 545; Chinese Communist views on, 914; Chinese Government expectation of, 422, 527, 549, 702
- Ward, Angus I., 104, 117, 137, 175, 181, 188-189, 192, 196, 198, 201, 210, 213, 216, 231, 244-245, 247, 249, 251-252, 916, 987, 989-990, 996-999
- Ward, Paul, 864
- Ward, Robert S., 1049
- Webb, James E.: Blockade of Chinese Communist ports by the Chinese Government, 1099-1100, 1134, 1136,

- Webb, James E.—Continued
 1138-1142, 1145, 1152, 1157-1159,
 1171-1172; China White Paper, pub-
 lication of, 1368; Chinese airlines,
 proposed U.S. support for, 517-518;
 Chinese Communist efforts to re-
 vive trade with Japan, 985-987, 989-
 991; Chinese Communist regula-
 tions regarding surrender of foreign
 currencies, 783-784; evacuation of
 Americans from China, 1255-1256,
 1348-1349, 1355, 1357-1358; petro-
 leum supplies for Communist China
 and North Korea, 1024; recognition
 of Chinese Communists, question of,
 27, 29, 33-34, 40-42, 45, 91-93, 103-
 104, 109-110, 160*n*, 189; Sinkiang,
 Sino-Soviet negotiations regarding,
 1046; Taiwan, U.S. policy toward,
 278, 345, 374-375, 392, 421-422, 426-
 427; trade with Communist China,
 U.S. policy regarding, 852-855, 878-
 880, 945; U.S. Commission to China,
 proposed, 509-510; U.S. economic
 and financial assistance for the Chi-
 nese Government, 645-646, 648-649,
 651, 671, 696, 699*n*, 705-708, 787;
 U.S. military assistance to the Chi-
 nese Government, 490, 505-506, 556,
 570, 582, 590-591; U.S. naval forces
 at Tsingtao, withdrawal of, 1201,
 1209; U.S. policy toward China, 519,
 524, 533-535, 540-541
- Wedemeyer, Lt. Gen. Albert C., 483-484,
 490-491, 523, 1365-1367, 1378, 1381,
 1388, 1408
- Wedemeyer Mission to China (1947),
 1408
- Wedemeyer Report on China (1947),
 1365-1367
- Wei Tao-ming, 263, 268, 313
- Wellborn, Alfred T., 203, 973
- Welles, Benjamin, 864-865
- Werner, Norman C., 965-966
- West, Robert R., 977-979
- West Germany, 883, 896
- Western European Union, rearmament
 program for, 473, 507, 511, 516
- Whampao Clique, 405-406
- White, P. Lincoln, 102
- Whitman, Roswell H., 823
- Wilcox, Francis, 1375
- Wilds, Walter, 160*n*
- Williams, John Z., 1004-1005
- Willis, George H., 775*n*
- Winckler, Jean-Claude, 96-97, 108-109
- Wong Chien, 449
- Wong Wen-hao, 730
- Wood, Percy, 133
- Woodward, Stanley, 708-710, 1368
- Wooldridge, Rear Adm. E. T., 1204-1205
- World Federation of Trade Unions, 246
- World Health Organization (WHO),
 171
- Wright, Robert B., 76, 872
- Wu, K. C., 206, 280, 301, 311, 320, 322-
 323, 330, 333, 345-346, 353-354, 365-
 366, 372-373, 384, 397-399, 403, 405-
 406, 411-416, 423-424, 429, 441, 445,
 447-449, 452-453, 455-457, 463-464,
 466, 470-471, 737, 1161, 1233-1234,
 1336, 1340-1342, 1395, 1404-1406
- Wu Chung-hsin, 312
- Wu Te-chen, 379
- Wu Tieh-cheng, 1120
- Wu Yang, 668-670
- Yalta Conference (1945), 433*n*, 1370-
 1371, 1373
- Yang, Chao-chia, 449
- Yao I-lin, 945, 976-977, 992
- Yee Tsoong, 946
- Yee Tsoong Tobacco Company, 1254,
 1259
- Yeh, George K. C., 146-147, 235-236, 248,
 419, 1037-1038, 1053-1054, 1059,
 1061, 1102, 1117, 1155, 1160-1162,
 1167, 1172-1173, 1179-1181, 1184,
 1396-1399, 1404
- Yen, C. K., 320-322, 332, 354, 409-410,
 423, 429, 441, 445, 1395
- Yen, Y. C. James, 578, 618, 661
- Yen Hsi-shan, Marshal, 95, 352, 441, 445-
 446, 471, 526, 694, 713, 793, 1098*n*,
 1099, 1102, 1161
- Yost, Charles W., 160*n*, 576, 594
- Young Men's Christian Association
 (YMCA), 1259
- Yu Han-mou, Gen., 549, 702, 759
- Yu Mi-chien, 449, 455
- Yu Ta-wei, 365, 410, 1395
- Yu Yu-jen, 1395
- Yuan Tung Steamship Company, 994
- Yugoslavia, 60, 104, 122, 158, 258, 260,
 992
- Yui, O. K., 730
- Zafrullah Khan, Mohammad, 112
- Zoppi, Vittorio, 17, 236





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